

**Dedicated to Abbu for having faith in me**

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**“Did *zakat* deliver welfare and justice? Islamic welfare policy in Pakistan,  
1980-1994”**

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I Arshi Khan, declare that the research presented in this thesis is my own to the best of my knowledge.

## **Abstract**

The thesis evaluates the effectiveness of the official *zakat* policy in Pakistan in delivering welfare and justice to poorer sections of society over the period 1980-1994.

The thesis contrasts the idealistic and theological aspirations of Islamists regarding *zakat* with the practical outcomes of *zakat* policy in Pakistan. It also compares *zakat* policy outcome with the objectives of the government. It is argued that the performance of *zakat* can be easily manipulated and influenced because it is not only a welfare instrument but also a political tool in the hands of the Islamic state, and thus can be used to advance political ends entirely divorced from the specific welfare goals of *zakat*. The lack of clarity of *Shariah* regarding *zakat's* aspirations for welfare and justice can facilitate this politicisation of the *zakat* policy. The thesis also argues that the religious nature of *zakat* does not guarantee automatic compliance with *zakat* policy, and that if individuals are to internalise the welfare goals of *zakat* it is necessary for them to have trust in the Islamic state's commitment to these goals.

The thesis shows that in Pakistan the Islamic state manipulated *zakat* policy formation and that there existed a lack of commitment on its part regarding *zakat* which hampered *zakat's* effectiveness. This is visible in the shape and the process of *zakat* policy formulation which demonstrates that the ideals of *zakat* policy were sacrificed by Zia's Islamic state to gain political patronage and power. This had huge negative implications for the workability and effectiveness of *zakat*.

An analysis of micro-data derived from Household Income and Expenditure Surveys for Pakistan from 1985 to 1994 reveals that *zakat* failed to exploit the wealth of the rich, with the heaviest incidence being borne by the lowest income groups. *Zakat* disbursements seemed inadequate and were less than 30% of the poverty line for the respective years. Additionally, there was non-negligible mis-allocation of *zakat* funds towards higher income households.

*Zakat* achieved some minor alleviation of poverty but its impact was unimpressive regarding reduction in the poverty gap and reduction of the poverty headcount measure. Regarding inequality, the thesis uses the Atkinson-Kohl inequality index and shows that *zakat* managed to create a positive statistical impact but the improvement was marginal. It seems that most of the time *zakat* was being taken from the poor and disbursed among them as well.



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## Glossary:

- *adl*: justice
- *Allah*: Islamic word for God which distinguishes his Oneness
- *Ameer-ul-Momeneen*: defender of the Islamic faith
- *amir*: leader or commander
- *caliph*: successor and refers to a vicegerent of Allah; Islamic ruler. *Caliphate* or *khilafate* means the system of succession in Islam that combined both religion and state under the rule of one caliph. After the assassination of the fourth caliph Ali in 661 AD, the caliphate became dynastic
- *falah*: welfare
- *fiqh*: Islamic jurisprudence
- *Fiqh Jafferia*: Ja'fari school of thought, Jafari jurisprudence or Jafari Fiqh is the name of the jurisprudence of the Shia Muslims, derived from the name of Jafar-al-Sadiq, the seventh Shia Imam out of twelve
- *hadith, Ahadith* (plural): saying of Prophet Mohammad
- *Hanafi* sect: the Hanafi school of thought (one out of four Sunni schools of thought) was one of the earliest established under the jurist Imam Abu Hanifa, who was born in Iraq (689 A.D.). The Hanafi law is followed in Turkey, the Balkans, Central Asia, Indian Sub-continent, Egypt, China. The other three sects are the Maliki, Shafi and Hanbali
- *homo economicus*: economic man
- *homo Islamicus*: Islamic man

- *ijtihad*: effort or striving. It refers to individual exertion as a process in arriving at new interpretations or judgements in Islamic Law as opposed to blind adherence to tradition. It also refers to the legal judgement based on human reasoning
- *imam*: a word used in several senses. In general use and lower-cased, it means the leader of congregational prayers; as such it implies no ordination or special spiritual powers beyond sufficient education to carry out this function. Imam is also used figuratively by many Muslims to mean the leader of the Islamic community
- *isnad*: the citations or ‘backings’ that establish the legitimacy of the *hadith*, which are the sayings of Prophet Muhammad
- *israf*: avoiding excessive consumption
- *majlis-e-shura*: ‘body for consultation’ specifically the duty of the ruler in Islamic law to consult his followers in making decisions. It refers to the assembly that meets for this purpose. The rules of *shura* are used to solve every problem that a group of individuals faces starting from within the family, to the problems of the community and continuing even to the political affairs of a country
- *modarabah*: The term refers to a form of business contract in which one party brings capital and the other personal effort. The proportionate share in profit is determined by mutual agreement. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. The financier is known as ‘*rab-al-maal*’ and the entrepreneur as ‘*mudarib*’
- *musawat*: equality
- *mustahiqeen*: deserving persons
- *nazrana*: an offering or a gift or sacrifice
- *nisab*: minimum amount of wealth liable to *zakat*

- *NIT Units*: The National Investment Trust is the largest and oldest mutual fund in Pakistan. It was constituted under the Trust Deed on 12 November 1962. The Government of Pakistan established NIT, in order to encourage the broad basing of the ownership of the growing industrialization in the country. NIT is supposed to make investing simple, accessible and affordable. It is supposed to provide investors with a convenient access to Pakistan's equity markets.
- *Nizam-e-Islam*: Islamic system of economic, political and social setup
- *Nizam-e-Mustafa*: system of economic, political and social setup in the time of Prophet Mohammad
- *Pir*: spiritual leader
- *Quran*: holy book of the Muslims
- *Ramadan*: ninth month out of twelve of the Muslim lunar calendar, month of fasting throughout hours of daylight. The Muslim calendar is also known as the *Hijri* calendar marking the emigration of the Prophet Mohammad and his companions from Makka to Madina in 622 AD
- *riba*: interest
- *roti, kapra aur makaan*: food, shelter and housing
- *Shaban*: eighth month of the Islamic calendar
- *Shaikh al Islam*: leader of Islam
- *Shariah*: Islamic law
- *Shia*: a Muslim religious sect; see *Fiqh Jaffaria*
- *sunnah*: actions of Prophet Mohammad
- *Sunni*: a Muslim religious sect. See *Hanafi* sect
- *sura*: verse from the *Quran*

- *tafsir*: ‘explanation’: Quranic exegesis or commentary. Someone who writes *tafsir* is a *mufassir*
- *taqlid*: rigid conformity or orthodoxy
- *ulema* (plural): Islamic scholars; *allama* (singular)
- *ummah*: community or nation. It is commonly used to mean either the collective nation of Islamic states. In the context of Islam, the word implies community of the believers and thus the whole Islamic world
- *ushr*: *Zakat* in the case of agricultural produce is known as *ushr*. It is payable on the harvesting of each crop, on 940 kg of wheat or its equal value in case of other crops. *Ushr* is liable at the rate of 5% on artificially irrigated land and 10% on naturally irrigated areas
- *zakat or zakah*: its literal meaning is ‘purification’ and ‘growth’. It is one of the most important and obligatory religious duties in Islam. It must be paid on surplus wealth: whatsoever is over and above the lawful necessities of an individual and his dependants, thus exempting Muslims of limited means. It is levied on all Muslims, including minors, orphans and Muslims of unsound mind. *Zakat* is charged annually at the rate of 2.5% on accumulated wealth of the individual’s assets
- *zulm*: injustice



## Abbreviations

- CII: Council of Islamic Ideology
- CZA: Central *Zakat* Administration
- CZC: Central *Zakat* Council
- CZF: Cental *Zakat* Fund
- ICP: Investment Corporation of Pakistan
- LZC: Local *Zakat* Council
- NIT Units: National Investment Trust Units
- PZA: Provincial *Zakat* Administration
- PZC: Provincial *Zakat* Council
- PZF: Provincial *Zakat* Fund

## Chronology of Pakistan

- 570-632 birth and death of Prophet Mohammad
- 711-712: Mohammad Bin Qasim (a Syrian Arab general of Caliph Al-Walid I army) conquers Sindh and Southern Punjab. Beginning of the establishment of Muslim rule in the Indian Sub-continent
- 976-1148: Ghaznavids period, Mahmood of Ghazni invades
- 1148-1206: Ghaurids Period
- 1206-1526: Formation of Delhi Sultanat
- 1526-1857: Mughal ascendancy (1526-1707), nominal rule by Mughals (1707-1857)
- 1760-1849: Sikhs become dominant force in Punjab, Ranjit Singh rules (1799-1839) British defeat Sikhs and annex Punjab and NWFP (North West Frontier Province) (1848-49)
- 1857: Failure of 'War of Independence' or 'Mutiny'
- 1885: Indian National Congress founded
- 1906: All India Muslim League founded at Dacca by Nawab Salimullah Khan as forum for Indian Muslim representation
- 1930: Allahabad Address (separate homeland for Muslims) by Allama Mohammad Iqbal
- 1940: Pakistan Resolution where Muslim League endorses idea of separate nation for India's Muslims
- 1947: Emergence of Pakistan on the world map. Muslim state of East and West Pakistan created out of partition of India at the end of British rule

- 1948: Muhammed Ali Jinnah, the founder of Pakistan and the first governor general of Pakistan, dies
- 1951: Jinnah's successor Liaquat Ali Khan is assassinated
- 1956: First constitution drafted on 23 March, Pakistan proclaimed an Islamic Republic
- 1958: Martial Law imposed by General Ayub Khan
- 1965: Indo-Pakistan war- lasts 23 days
- 1969: General Ayub Khan resigns and General Yahya Khan takes over
- 1970: Victory in general elections in East Pakistan for breakaway Awami League, leading to rising tension with West Pakistan
- 1971: East Pakistan attempts to secede, leading to civil war. India intervenes in support of East Pakistan which eventually breaks away to become Bangladesh. After civil war power transferred to Zulfikar Ali Bhutto
- 1973: New constitution adopted
- 1977: Riots erupt over allegations of vote-rigging by Zulfikar Ali Bhutto's Pakistan People's Party (PPP). General Zia ul-Haq stages military coup and imposes martial law
- 1978: General Zia becomes president
- 1979: Zulfikar Ali Bhutto hanged
- 1981: Opposition Movement for the Restoration of Democracy formed
- 1985: Non-party elections held, amended constitution adopted, martial law lifted
- 1986: Zulfikar Ali Bhutto's daughter Benazir returns from exile to lead PPP in campaign for fresh elections
- 1988: General Zia killed in an air crash and in November Benazir Bhutto's PPP wins general election

- 1990: Benazir Bhutto dismissed as prime minister on charges of incompetence and corruption and Nawaz Sharif elected as Prime minister
- 1991: Prime Minister Nawaz Sharif begins economic liberalisation programme. Islamic Shariah law formally incorporated into legal code
- 1993: President Ghulam Ishaq Khan and Prime Minister Sharif both resign under pressure from military. General election brings Benazir Bhutto back to power and in October, Benazir elected as Prime Minister
- 1996: President Leghari dismisses Bhutto government amid corruption allegations
- 1997: Nawaz Sharif returns as Prime Minister after his Pakistan Muslim League party wins elections

## Introduction

This thesis aims to analyse the *zakat* policy in the context of Pakistan from 1980 to 1994.

*Zakat* is a redistributive and an obligatory tax levied at 2.5% per annum on the wealth of a Muslim who has more than the specified amount of wealth. *Zakat* is to be utilised for alleviation of poverty by disbursing it to the poor, widows, orphans and the handicapped eligible to receive.

This thesis assesses *zakat's* performance in Pakistan as a social welfare policy and calculates its effectiveness not only in terms of its ideological rhetoric, i.e. its objectives in terms of the assertions of the Islamists, but also in terms of its official objectives, i.e. what the government promised *zakat* would achieve and what it actually did. It assesses *zakat's* policy-making procedure and evaluates its performance in terms of its revenue take and its redistributive impact in connection with the role of the Islamic state in the *zakat* policy mechanism.

Soon after coming to power in 1977, General Mohammad Zia-ul-Haq announced the Islamisation of Pakistan to be his prime objective. Thus on 10 February 1979, President Zia-ul-Haq addressed the nation on 'The Introduction of the Islamic System in Pakistan', at the National Assembly Hall in Islamabad, and he selected *zakat* (one of the five fundamentals of the Islamic faith) as the beginning of the Islamisation process. To this effect, the formal institutionalisation of *zakat* took place under the *Zakat and Ushr Ordinance 1980, No. XVIII* on 20 June 1980. The law held all the *sahib-e-nisab* (those who hold a certain amount of wealth) Muslims to pay *zakat* and for the Islamic state to

endeavour to secure its proper organisation. Thus, the Government of Pakistan undertook the collection and distribution of Islamic taxes on a national basis. With the passing of the Ordinance a *Zakat* Fund was created with the amount of Rs.2250 million (\$228 million).

The *zakat* system of taxation was parallel to the federal fiscal system and thus its revenue and expenditure were not part of the secular budget. *Zakat* funds were to be utilised for the poor, widows, orphans and the handicapped eligible to receive *zakat* for their subsistence or rehabilitation, directly through the Local *Zakat* Committee or indirectly through educational institutions, hospitals or clinics. Additionally, the funds were to be utilised for the purpose of expenditure on the disbursement and administration of *zakat* at the local level.

Thus Pakistan's *zakat* policy was a government-imposed welfare system that aimed to provide subsistence and a source of revenue to those members of society who found themselves in poverty and were unable to earn a living.

The rationale for the imposition of *zakat* derived perhaps from domestic concerns as well as international ones. The internal rationale for the imposition of *zakat* arose perhaps with the *raison d'être* of Pakistan inherent in its Islamic Ideology. It could perhaps also have been the result of the era of economic development in Pakistan, which is identified with the 1960s. The economic growth of the time was the outcome of the economic policies pursued by Ayub Khan whose martial law replaced civilian rule in 1958. He stayed in power till 1968. His policies favoured the capitalist class and were geared towards creating monopolies, thus creating a gulf between the rich and the poor. The subsequent Bhutto government adopted a socialist path for economic organisation and nationalised most of the

industries. The outcome was the creation of more employment and bureaucratisation. This led to industrial inefficiency, as labour was not discarded despite losses and low production. Additionally, despite Bhutto's concern for the well-being of the masses, he failed to make gains in the field of social investment. The promise of labour-intensive projects did not materialise leaving high unemployment, and the gap between the rich and the poor created in the 1960s was only exacerbated in the 1970s. Thus when Zia came to power he decided to impose *zakat*, which after the Ayub and Bhutto economic policies seemed like a gesture not only to uplift the condition of the poor but also to gain acceptability and legitimacy from the general masses for his political ascendancy.

The external rationale for the Islamisation of policies found fertile ground in the Soviet invasion of Afghanistan, which prompted the *jihad* movement there among the right-wing factions. The movement received heavy support from the United States in the face of the apparent growing Communist threat. The US support for the Islamisation of the region was lubricated with massive financial support to set up Islamic *madaris* (schools), which glorified Islamic political, economic and social ideologies. Even before the Soviet invasion, in the wake of the Islamic revolution in neighbouring Iran (1979), Zia found solid cause to advance his agenda for gaining influence and control by going back to Pakistan's *raison d'etre* as an explicitly Islamic Republic, consequently introducing Islamic social policies such as *zakat*. Such policies with overtly Islamic overtones would ideally give him the legitimacy that he needed to rule.

Also, the oil boom of 1974 engulfed the Muslim world with the fervour to revive Islamic ideological concepts, which Zia eagerly imported from the Middle East. More developed concepts of political Islam, the Islamic state, Islamic economics and the *Shariah* were

emerging. One of the major countries to support Zia's pursuance of Islamic ideology was Saudi Arabia. It helped Zia's government not only by donating huge sums of money, for example to establish a *zakat* fund, but also by providing it with intellectual assistance. This helped to foster that brand of Islam that sanctioned Zia's Islamic policies through the idea of an Islamic state, consequently strengthening his hold on power.

In the wake of such developments, the world witnessed Islamist intellectuals strive for the emergence of a new economic order known as the Islamic economic system. This system is based on the Islamic economic philosophy, which takes its origins from the *Quran*, *Sunnah* and the *Hadith* (practices and sayings of the Prophet Mohammad). The adherents of this system claim it to be a superior economic order to both capitalism and communism as they regard these as based on exploitation of the poor, the former via the market and the latter by the state. They say that the Islamic economic order, on the contrary, is based on principles of equality and justice as it prohibits *riba* (interest), which exploits the poor and instead it introduces *modarabah* (profit and loss sharing) where every economic agent gets his/her rightful share of the resources. They assert that the Islamic state makes sure that justice is done in the economy by introducing a charity tax system based on *zakat*. *Zakat* is the jewel in the crown of the Islamic economic order and forms the basis of the Islamic social security system.

Islamists say (for the purpose of this treatise the term 'Islamist' will be used to mean proponents of Islamic economics, and 'Muslims' will mean followers of Islam) that the *homo Islamicus* (the Islamic man) would follow the ideals of the Islamic economic philosophy regarding the strongest pillar of equity and welfare, i.e. *zakat* and would pay it willingly to the Islamic state due to *zakat's* religious nature. They also assert that the



Islamic state would instrumentalise *zakat* in a way that would eliminate destitution and poverty in the Islamic society, and break the association between the rich and the powerful, as wealth would flow from the rich to the poor. This would promote welfare and reflect the ideals of Islamic distributive justice. The social, economic and the political importance of *zakat* are unrivalled due to its charitable nature, which gives it popular appeal. Optimism surrounding *zakat* is rooted in the claim of the Islamists, who assert that the religious nature of *zakat* renders it superior to the secular social security network. In Pakistan, it was hoped that this divine injunction would work wonders for poverty and inequality in society.

It is the purpose of this thesis to test the ideological claims of the Islamists and the official objectives of Pakistan's Islamic state regarding *zakat* policy against its operational reality in Pakistan. The normative aspects of equity and justice in the Islamic economic system need to be assessed on the ground via *zakat*. Therefore, it is important to weigh empirically the extent to which *zakat* in Pakistan operated in accordance with its redistributive rationale.

### **Importance of this Topic**

The study of Islam with its political and economic ideology and its social codes is perhaps more relevant today than it was in the Middle Ages or even a century ago. The post colonial revival of Islamic political, economic and social thought makes the study of *zakat* with its social and economic connotations very significant. *Zakat* is one of Islam's most important pillars of belief and to study its economic history in the context of Pakistan, a country at the forefront of Islamisation, would be a valuable undertaking. Not only this, but *zakat's* redistributive intent should attract the attention of those who are interested in studying poverty and inequality reduction issues (not only at a theoretical but also at the applied level). It should also be of interest to students of political economy and also of social policy

who are interested in conducting the study of a welfare instrument within an idealised economic system. This study would demonstrate how normative Islamic economics has translated itself into a positive one regarding *zakat*, with what level of success and whether the Islamic social welfare system has been effective in delivering the objectives of welfare and justice to which it aspires.

### **Pakistan as a Case Study**

The present analysis uses the Islamic Republic of Pakistan as a case study. Pakistan appeared on the world map as an independent country in 1947 by the partition of India by the British. It was founded on ideological grounds and is the only country to be created in the name of Islam. Although the religious orientation of the state was explicitly embodied in the formal name of the country, and despite the early inclusion of Islamists within some elements of the state apparatus, it was not until 1980 that the then President, General Zia, embarked upon a process of Islamisation of economic and social activity within Pakistan.

Islamists in Pakistan asserted that Islamisation is a natural consequence of an ideological state and advocated the imposition of *zakat* (which was to be imposed in addition to an already operative secular tax system). This makes Pakistan an appropriate case study not only due to its ideological basis but also due to the fact that it was one of the first Islamic countries to initiate the Islamisation of the society via political, economic and social laws. A central element of this process of Islamisation was the introduction of *zakat* to a degree never undertaken by any other Islamic country.

Pakistan's Islamisation began with the declaration of the Zia government to turn Pakistan into an Islamic state. This included the introduction of Islamic laws within the banking

system via the introduction of *modarabah* (profit and loss sharing) and moved towards the abolition of *riba* (interest). Additionally, in 1979 the *Hudood* Laws (which are seen as the beginning of the implementation of classical Islamic criminal law) were also imposed.<sup>1</sup> Furthermore, in 1984 the *Qanune-e-Shahadat* (Law of Evidence) was enacted.<sup>2</sup>

Does the imposition of such ideological essentials label a country as Islamic and following an Islamic economic system? Pakistan has had Islamic laws in operation for almost 26 years, which is ample time for the individuals to internalise policies and laws and also for policies to reveal their consequences, results, and their strengths and weaknesses. Thus in the case of Pakistan one can safely assume that there is sufficient material to provide scope for an empirical test of the effectiveness of Islamic policies, in this case *zakat*, which was imposed as a highly structured and stratified system as envisioned by the Islamic state of the time.

### **Previous Work on *Zakat***

There is a plethora of literature on the ideological underpinnings of *zakat* in general, and this will be analysed in Chapter One. However, the existing literature on *zakat* in Pakistan is not vast, and there have been few comprehensive empirically based studies assessing its efficiency.

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<sup>1</sup> R. Mehdi, *The Islamisation of Law in Pakistan* (Surrey: Curzon Press, 1994), p. 109. A person charged under *Hudood* laws faces severe punishments, including public flogging or the amputation of limbs. The martial law regime in Pakistan enforced four *Hudood* Ordinances: Offences against Property; the Prohibition Order; the Offence of *Qazf* (when a person makes a false allegation of fornication or rape with the intention to harm and the knowledge or reason to believe that such imputation will harm the reputation or hurt the feelings of the person to whom the crime has imputed, p. 132); and the Offence of *Zina*. *Zina* is defined as sexual intercourse out of wedlock. With the adoption of *Zina* laws, for the first time in Pakistan's history, fornication along with adultery became a crime against the state and, made non-compoundable, non-bailable and punishable by death.

<sup>2</sup> Ibid. p. 147

Not only do these studies lack hypothesis and tend to be descriptive rather than analytical but they also lack any historical context. They are deficient in questioning the ideological and political rhetoric, which are central to any assessment of *zakat* considering its theological background. Most of the works are of an ad-hoc nature and lack a contextual relationship with the government's *zakat* policy as they fail to question the government's motives. The sources also have a propensity to transcribe the *Zakat and Ushr Ordinance* from its legal jargon into a non-legal language and present it as a piece of research. However, there are a few studies that have somewhat managed to transcend the above-mentioned limitations, and these have been used in the present thesis. The following literature review examines the most important works on *zakat* in Pakistan. The aim is to not only inform the reader of what other researchers have done but the literature review will also aim to show why the present research needs to be carried out.

The literature is reviewed under five categories: a descriptive evaluation of *zakat*, a historical evaluation, a legal evaluation, a social evaluation and an economic evaluation. The rationale of this review is to orientate the present thesis, which aims to transcend, empirically and intellectually, the previous works that have been written on *zakat* in Pakistan.

*Descriptive evaluation:*

Writers such as Imtiaz, <sup>3</sup> Kahf <sup>4</sup> and Butt <sup>5</sup> have written articles that provide a description of the administration, i.e. the working of the *zakat* system. However, their works are rather succinct in their evaluation. They have failed to explore the operational challenges faced by the *zakat* mechanism. A common theme in their work is to replicate the *Zakat and Ushr* Ordinance or copy various passages from the official Guide Book of *Zakat and Ushr*. In case of Imtiaz, this is not a surprise because interestingly, he was the author of the Guide Book and the first Administrator General of the Central *Zakat* Administration. Nonetheless, his account of the *zakat* administration is a reliable source for referencing. What comes across from these sources is a narrative of the procedure of *zakat*'s major mechanics as they operate in Pakistan.

However, these authors do provide a cursory quantitative glimpse into the collection and disbursement of *zakat* at the national aggregate level, even though they do so via the replication of the published government sources. Their presentation of the aggregate level qualitative and quantitative data is however without any detailed examination and thus offers no valuable conclusive remarks. The time period covered in these sources ranges from the mid-1980s to the late 1980s.

#### *Historical evaluation:*

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<sup>3</sup> I. A. Imtiaz, "Management of Zakah Collection and Disbursement: The Administrative and Managerial Structures in State Organisations: The Pakistan Experience" (paper presented at the International Training Seminar on Zakah Management, Islamabad, May 20th-23 2002), I. A. Imtiaz, "A Model System for the Assessment Collection and Disbursement of Zakat (Case Study of Pakistan)", 1987, Lahore Staff College, Lahore, I. A. Imtiaz, "Organisation of Zakah: The Pakistan Model and Experience" (paper presented at the Management of Zakah in Modern Muslim Society, Karachi, 22nd April to 2nd May 1985).

<sup>4</sup> M. Kahf, "Zakah Management in Four Muslim Countries," in *Zakah Management in Some Muslim Societies* (Jeddah: Islamic Development Bank, Islamic Research and Training Institute, 2000).

<sup>5</sup> P. A. Butt, "Pakistan," in *Institutional Framework of Zakah: Dimensions and Implications*, ed. Ahmed Abdel-Fattah El-Ashker and Muhammad Sirajul Haq (Jeddah: Islamic Research and Training Institute, Islamic Development Bank, 1995).

Jamal Malik's<sup>6</sup> study of the *zakat* system in Pakistan is a chapter in a book called 'Colonisation of Islam'. It is an effort to relate the social and the economic situations of the Muslims with the process of Islamisation in Pakistan. He forwards the hypothesis that the colonial state (by which one supposes he means the structure of the state inherited from the Imperialist powers) enacts its policy of integration by traditionalising colonial institutions on the one hand and by colonising the traditional institutions on the other. Malik states that such a policy brings about the disintegration of the traditional systems of social welfare and health insurance. He uses this chapter on *zakat* to test this hypothesis by giving the history of *zakat* in Pakistan and then continues with detailed description of the government's operation regarding the policy making process, the bureaucratic structure and the flow of *zakat* funds. It also puts *zakat* revenue in the context of the secular receipts and expenditures by comparing *zakat* expenditure with the secular social welfare expenditure at the provincial level. The data used is based on the publications of the *zakat* agencies. The analysis tends to be ephemeral as he not only fails to undertake critical analysis of *zakat* policy making, he does not offer insight into who received or gave *zakat*, how much, was it adequate or what effect it had on poverty reduction or income inequality. Although the study does not undertake the effects of *zakat* on poverty or inequality, the chapter is a helpful source for getting an overall picture of *zakat*'s operation for its formative years as the analyses end in 1985.

#### *Legal evaluation:*

A recently published book by Khalid Nazir,<sup>7</sup> called 'The *Zakat* Law', could be considered a quick reference source and a guide to the understanding of the *Zakat* Ordinance from a

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<sup>6</sup> J. Malik, *Colonialization of Islam: Dissolutions of Traditional Institutions in Pakistan* (Dhaka: The University Press Limited, 1999).

<sup>7</sup> K. Nazir, *The Zakat Law* (Islamabad: Ammar Publications, 2002).

legal perspective. This book outlines the conceptual development of the *Zakat* Ordinance in Pakistan. It analyses the text of the law as passed in 1980 from the *Shariah* perspective and also aims to study the amendments made in the Ordinance. It concludes by recommending the need to boost public confidence in and awareness of the system and to avoid making changes that would jeopardise benefits for the poor. It is a good secondary source and a starting point for anyone interested in evaluating *zakat* policy. The time period covered is from the imposition of *zakat* in 1980 to 1997.

Another piece of work that evaluates *zakat* from its legal perspective is by Elizabeth Ann Mayer undertaken in 1982<sup>8</sup>. Mayer places the *zakat* law within the Pakistani secular tax structure and hypothesise that *zakat* was just another way for the government to raise revenue: and for this purpose the classical *Shariah* tax principles and terminology were combined with the current governmental taxation goals. She claims that for this reason the religious obligation of *zakat* had been transformed into a mundane tax liability. How this translates into an effective poverty-alleviating tool during the 1980s and 1990s will be shown in this thesis.

#### *Social evaluation:*

Two names ought to be mentioned here: Grace Clark<sup>9</sup> and Faiz Mohammad.<sup>10</sup> Both authors undertake analyses of the entire system of *zakat* i.e. evaluating its administrative set-up, its disbursement procedure and its interaction with the recipients. The studies are based on sample surveys, interviews and government publications and aim to bring out the strengths

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<sup>8</sup> E. A. Mayer, "Islamisation and Taxation in Pakistan," in *Islamic Reassertion in Pakistan: The Application of Islamic laws in a Modern State*, ed. A. M. Weiss (Syracuse N.Y.: Syracuse University Press, 1986).

<sup>9</sup> G. C. Clark, "Pakistan's Zakat and Ushr System: An Islamic Public Welfare System in a Developing Country" (University of Maryland, 1985).

<sup>10</sup> F. Mohammad, "Evaluation of nizam-e-zakat and ushr in Pakistan", October, 1992, International Institute of Islamic Economics, Islamabad

and weaknesses of the *zakat* system. Mohammad's study spans from 1980 to 1988 and manages to point out the deficiencies and achievements of the system. However, his work falls short of evaluating the findings in terms of the government's objectives and goals, which could be viewed as its limitation.

Clark's work needs special mention. Her work was her PhD dissertation covering the first four years of *zakat* from 1980 to 1984. It presented a case study and policy analysis of Pakistan's national *zakat* system as a public welfare system. The study evaluated both the administrative structure of the system and the manner in which the progression and implementation of the policy occurred. It based its assessment on a theoretical premise of evaluating the *zakat* policy under such criteria as adequacy, stigma, equitable efficiency, and effect on work, cost and public opinion, which allowed the thesis to form an opinion upon policy effectiveness. It aimed to describe how the policy was intended to work as well as documenting how it actually worked. Her study found that *zakat* benefits are inadequate for subsistence. Rehabilitation grants, though adequate, are not accompanied by proper training for the beneficiary, which wastes *zakat* resources. Clark states that Pakistan's *zakat* system has made a modest start but can serve as a basic model for a public welfare system in developing countries with limited resources.

Clark's work is a comprehensive study on *zakat*, though covering only its first four years. Additionally, the study does not examine the economic effects of the system based on quantitative data of *zakat* disbursements.

*Economic evaluation:*



With regards to *zakat* expenditure in Pakistan and its effects, there are few sources. However, these make their point potently and thus substantiate their conclusions. Writers such as Faiz Mohammad,<sup>11</sup> Shirazi<sup>12</sup> and Jehle<sup>13</sup> undertake analyses of *zakat's* effect on poverty alleviation in Pakistan.

Mohammad tries to assess the extent to which the system as practised in Pakistan has the potential to eradicate poverty. He quantifies the gap between the financial needs for eradicating poverty and the *zakat* potential in Pakistan for 1988. His study is based on a sample survey of 257 Local *Zakat* Committees out of the total of 36,658. The number of recipients interviewed stands between 4-7 for each selected LZC and similar numbers of non-recipients were been interviewed from a population of 5000 to 10000 in each locality. His study shows that the existing system's potential even without leakages is not sufficient to cater to the subsistence needs (excluding rehabilitation) of the poor in Pakistan. Mohammad asserts that the *zakat* will have to be reformed if it is to make a positive mark on the poverty situation in Pakistan.

Shirazi's study attempts to estimate the impact of *zakat* and *ushr* on household poverty alleviation. He uses the Household Integrated Economic Survey (HIES) for two years: 1987-88 and 1990-91. Shirazi estimates the share of *zakat* and *ushr* in the average disposable income of the lower income deciles. He concludes that the impact was not that significant, but he does assert that *zakat* and *ushr* accounted for 39% of the average

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<sup>11</sup> F. Mohammad, "Prospects of Poverty Eradication Through the Existing Zakat System in Pakistan," *The Pakistan Development Review* 30, no. 4 Part II (1991).

<sup>12</sup> N. S. Shirazi, *System of Zakat in Pakistan: An Appraisal* (Islamabad: International Institute of Islamic Economics, 1996).

<sup>13</sup> G. A. Jehle, "An Islamic Perspective on Inequality in Pakistan," *The Pakistan Development Review* 31, no. 3 (1992), G. A. Jehle, "Zakat and Inequality: Some Evidence from Pakistan," *Review of Income and Wealth* 40, no. 2 (1994).

disposable income of the lowest income decile, which he applauded as extremely encouraging and evidence that *zakat* was targeting the right group. Shirazi also attempts to highlight the problems in raising *zakat* revenues and disbursing them. The absence of an evaluation yardstick means his assessment offers no conclusions as to how the *zakat* policy was intended to work in Pakistan.

Like Shirazi, Jehle also uses the HIES data to assess *zakat* performance but only for 1987-88. Although covering only one year, this is a significant study, mainly because of the methodology employed and the analyses undertaken. He uses the data to construct two income distributions: one that would have existed without *zakat* and the other with *zakat*. Jehle assesses the impact of *zakat* on income inequality using the Sen, Kohl and Atkinson relative indices of income inequality in Pakistan. Jehle's research shows that a high proportion of the Pakistani population gives *zakat* although many give very little. He also observes that there is a tendency for the collection of *zakat* to decline across the income spectrum as income rises. He concludes that *zakat* has fulfilled some of its promise of reducing income inequality, but he adds that this impact has been marginal, due to the fact that *zakat* does not reach the poorest in Pakistani society. However, because Jehle's study covers only a single year, the real impact of *zakat* over the years cannot be assessed.

### **Premise of the Present Thesis**

This thesis estimates the quantitative and qualitative aspects of *zakat's* performance as a social welfare policy in terms of who pays and receives and how much; if *zakat* reduced poverty and inequality in Pakistan over fourteen years. The thesis evaluates *zakat's* capability regarding its ideological beneficence as held by the Islamists. It also weighs the system against its official objectives. The thesis analyses *zakat's* policy-making process and

evaluates the role of the Islamic state in its development and in the running of the *zakat* system. The *zakat* system is not analysed in an ideological, historical or a political vacuum.

The thesis questions *zakat's* workability on the premise that welfare policies (such as *zakat*), even if they are deemed sacred and hallowed as divine injunctions, become political instruments (especially considering the unclear injunctions regarding it in the *Shariah*). As such, they are vulnerable to manipulation by the Islamic state, taking into account the economic and political power bestowed upon it by the *Shariah*. Furthermore the thesis also shows that *zakat* needs more than ideological and religious rhetoric (as asserted by the Islamists) to achieve its goals. Effectiveness of policies requires trust between the ruler and the ruled, which is dependant on the political legitimacy of the government, fairness in policy formulation procedure and the state's lasting commitment towards the policy.

To achieve the above, the analytical framework in the present thesis is forwarded in a manner that firstly assesses the institutionalisation of *zakat* i.e. the political economy of the Islamic welfare policy making and secondly, the role of the Islamic state's commitment to *zakat* and its consequences and how it affected *zakat's* evolution as a system in Pakistan.

It needs to be clarified here that because a significant part of the empirical analysis conducted in this thesis covers Zia's era from 1977 to 1988, it might appear that the analytical framework used in this thesis (described above and which will be examined in detail in Chapter Two) pertains only to Zia's period and is therefore not applicable for the post Zia regimes. This however is not the case as Islam continued to play an important role in Pakistan's polity even after Zia's demise in 1988. Whereas this is not true of Benazir Bhutto's government, Islamisation was very much at the core of Nawaz Sharif's.

Sharif's policies continued to be geared towards the Islamisation of Pakistan's society via the Islamic state. This was partly due to his apprehension of the destabilising potential of the religious parties, and partly to distract people from Pakistan's economic ills and security threats, internal as well as external.<sup>14</sup> On coming to power in late 1990 Sharif declared himself to be the guardian of Zia's legacy.<sup>15</sup> His government and Nawaz personally was committed to pursuing the goal of Islamization.<sup>16</sup> Nawaz held the view that Pakistan was created in the name of Islam, but its rulers had failed in enforcing it in the country.<sup>17</sup> Under the fifteenth amendment to the constitution, Nawaz Sharif (like Zia) sought to become the *Ameer-ul-Momeneen* (commander of the faith) and undertook to make the *Quran* and the *Sunnah* the supreme law of the land. The proposed amendment sought to make all the functionaries of the state, including the army chief of staff and the chief justice, subject to the *Quran* and the *Sunnah*, however interpreted. Second, it put the judiciary as well as parliament in the shade, leaving the prime minister and his appointed advisers on Islam as the would-be arbiters of Pakistan. However, Sharif's recourse to Islam is widely perceived as hollow symbolism.<sup>18</sup>

Even though Sharif stood for upholding Zia's Islamic policies, one observes the erosion of the authority and prestige of the *zakat* system after 1988. This was mainly due to Bhutto's more secular political stance and the political upheaval that Pakistan went through in the

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<sup>14</sup> A. Jalal, "Pakistan's Tangle: the Politics of Conflicting Security and Economic Interests," *Government and Opposition: An International Journal of Comparative Politics* 34, no. 1 (1999). p. 13

<sup>15</sup> R. A. Khan, "Pakistan in 1992: Waiting for Change," *Asian Survey* 33, no. 2 (1993). p. 131

<sup>16</sup> I. Husain et al., "Islamization and the Pakistani Economy", 2004, Woodrow Wilson International Center for Scholars, Washington, D.C. p. 107

<sup>17</sup> S. V. R. Nasr, "The Rise of Sunni Militancy in Pakistan: The Changing Role of Islamism and the Ulama in Society and Politics," *Modern Asian Studies* 34, no. 1 (2000). p. 178

<sup>18</sup> Jalal, "Pakistan's Tangle: the Politics of Conflicting Security and Economic Interests." p. 13-14

form of frequent changes in governments after 1988. This subsequently had its effects on the *zakat* system.

Whereas it would have been interesting to assess the *zakat* system in Pakistan post 1994 (at least till 1999 during which Sharif was in power for three years till his overthrow in a coup by Musharraf) the unavailability of data has hindered this possibility.

Nonetheless, this is the first time that the *zakat* policy in Pakistan has been evaluated over a period of fourteen years. Much of the data employed in the thesis has not been used for this purpose before, including the six years of Household Integrated Economic Surveys, some of the annual reports of the Central *Zakat* Council and some reports of the Council of Islamic Ideology to name a few (data limitations will be described later in the Introduction).

This research provides a comprehensive appraisal of the procedure of *zakat* policy formation, an assessment of its revenue and disbursement patterns and an examination of the bureaucratic practices of *zakat*. Throughout the assessment this thesis contrasts the practical reality of *zakat* with its ideological and religious underpinnings (which inspired the *zakat* law in Pakistan), in addition to contrasting it with its objectives and goals as declared by the Pakistani Government. Moreover, this thesis goes beyond using ideological benchmarks and uses economic criteria expressed through poverty lines and inequality indices (as used by Shirazi and Jehle) to conduct the evaluation of *zakat's* effectiveness. This study therefore breaks new ground in analysing the imposition of *zakat* in Pakistan by making an across the board analysis and observes how normative notions regarding *zakat* performed when applied in real life in an Islamic country.

## ***Ushr* in the Thesis**

*Zakat* on agricultural produce is called *ushr*. *Ushr* is the first charge on the produce. It is charged and collected on a compulsory basis from the produce of the land (including horticulture and forestry) of the landowner, grantee, allottee, lessee, lease-holder or land holder at the rate of 5% above the value of 5 *wasqs* (940 kilograms) of wheat or its equivalent in value in case of other crops. In Pakistan *ushr* is levied at a flat rate of 5%. This flat rate differs from the traditional method of levy, which requires a 10% *ushr* levy on the produce if the land is irrigated with rain water or gravity flow water channels, but only 5% if the land is irrigated by artificial irrigation such as wheel pumps, tube wells and lift pumps.<sup>19</sup> However, Pakistani law encourages the owners of rain-fed areas to pay an additional 5% for *ushr* as a voluntary contribution, but not many do: *Ushr* is liable only in cash and not in kind.<sup>20</sup>

Exemptions from *ushr* include those who are eligible to receive *zakat* under *Shariah*, and those whose produce from the land is less than 940 kilograms of wheat or its equivalent in the case of other crops. Tenants are encouraged to pay although they are not legally required to do so.<sup>21</sup> In an amendment to the Ordinance on 7 May 1983, the *Ushr* assessee became entitled to reduce one third of the *ushr* due in the case of produce from land irrigated by tube wells and one fourth in the case of a possible overestimation in assessment.<sup>22</sup> Land revenues are not chargeable in respect of land on whose produce *ushr*

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<sup>19</sup> Imtiaz, "A Model System for the Assessment Collection and Disbursement of *Zakat* (Case Study of Pakistan)", pp. 66-67

<sup>20</sup> Clark, "Pakistan's *Zakat* and *Ushr* System".p. 222

<sup>21</sup> Nazir, *Zakat Law*.pp. 72 & 75

<sup>22</sup> *Ibid*, pp. 153-4

has been charged and recovered compulsorily. Where compulsory realisable *ushr* falls into arrears, it is recoverable as arrears of land revenue.<sup>23</sup>

In the present thesis the word *ushr* has mostly been used synonymously with *zakat*. Where *zakat* collection and disbursement commenced as soon as the *Zakat and Ushr Ordinance* took effect in 1980, the collection of *ushr* did not start till the spring of 1983 due to issues with the workability of policy procedures.<sup>24</sup> This thesis does not present any explicit and detailed analyses of the *ushr* policy making or implementation process. This is because of the acute shortage of qualitative data on *ushr*. There is little systematic centralised record keeping as *ushr* is collected and disbursed at the local level. This implies that the quantitative data presented at the national aggregate level does not include *ushr*. Despite this, the micro-level data based on the Household Integrated Economic Surveys used in this thesis include *ushr* as well as *zakat*, and so the impact of *ushr* is therefore included in the revenue and distributional analysis in Chapters Four and Five.

The following table displays *ushr* collection in Pakistan since its commencement until 1994. It shows that *ushr* collection was decreasing at an average rate of -27% in real terms and by the mid-1990s *ushr* collection was negligible as a percentage of GDP,

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<sup>23</sup> Imtiaz, "A Model System for the Assessment Collection and Disbursement of Zakat (Case Study of Pakistan)", p. 66

<sup>24</sup> Mayer, "Islamisation and Taxation in Pakistan." p. 73

**Ushr Collection in Nominal & Real Prices & as Percentage  
of GDP**

Years	Ushr Collection (nominal prices)	% of GDP	Ushr Collection (real prices rebased to 1980 prices)
1982-83	179.23	0.10	147.60
1983-84	258.71	0.11	202.37
1984-85	261.04	0.10	186.22
1985-86	246.4	0.07	168.15
1986-87	225.43	0.05	148.94
1987-88	239.88	0.05	151.63
1988-89	177.04	0.03	102.09
1989-90	107.57	0.01	57.13
1990-91	121.65	0.01	60.69
1991-92	40.7	0.00	17.96
1992-93	10.35	0.00	4.15
1993-94	0.2	0.00	0.07

Source: Central Zakat Administration (1994). *Zakat and Ushr System in Pakistan*. Ministry of Finance, and Author's own calculations.

There are many reasons for the low revenue from *ushr*. The self-assessment procedure for *ushr* could be contested. *Ushr* is made vulnerable to disputes between the payer and the Local *Zakat* Committees (LZC). If the LZC challenged the self-assessment then it arranged its own assessment by a committee member, local tax collector or a special agent.<sup>25</sup> However, the assessee could appeal to the Tehsil *Zakat* Committee if dissatisfied with the LZC's judgement. Later on, in an amendment to the *Zakat and Ushr* Ordinance in 1990, the appeal against the LZC's judgement was not to be lodged with a higher *zakat* authority but with the local government at the level of the Sub-Divisional Magistrate.<sup>26</sup>

Secondly, the LZCs, which were responsible for the collection of *ushr*, were voluntary agencies and hence hard pressed for time due to other obligations. The members of these committees felt uncomfortable in pestering their neighbours for *ushr* due. Thirdly, it is believed that the LZC members may have felt hesitant to harass the influential

<sup>25</sup> Clark, "Pakistan's Zakat and Ushr System". p. 224

<sup>26</sup> Nazir, *Zakat Law*. pp. 153-4 & 166



landowners<sup>27</sup> who also happened to be the LZCs' members' personal landlords. And finally, another important factor that contributed to the meagre *ushr* revenues was that many times the LZCs were un-knowledgeable of the importance of the *ushr* collecting task and lacking the knowledge of revenue matters.<sup>28</sup>

In 1990, because of the low *ushr* revenues, the Government decided to withdraw the task of *ushr* collection from the LZCs and assign it to the Provincial Revenue Department via an amendment to the *Zakat and Ushr Ordinance*.<sup>29</sup> However, according to Shirazi it was only in 1993 that the Central *Zakat Administration* actually handed over the responsibility of assessing and collecting *ushr* to the Provincial Revenue Department.<sup>30</sup> Due to non-availability of data on *ushr* after 1993-94 it is impossible to assess the impact of this amendment on *ushr* collection.

Considering that the value of aggregate *ushr* raised is extremely low for the period under consideration, and there is little qualitative and quantitative *ushr* data (if any exist in a comprehensive form), it is not only futile but also impossible to undertake detailed *ushr* analyses. However, for this thesis it is fortunate that the micro-level HIES data, on which the crux of Chapters Four and Five are based, include *ushr*, which makes it part of the core analysis of the thesis.

## Data Collection

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<sup>27</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan," ed. Central Zakat Administration (Ministry of Finance, Government of Pakistan, 1991).p 3

<sup>28</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan," ed. Central Zakat Administration (Ministry of Finance, 1994).p. 7

<sup>29</sup> Ibid. p. 6. Also, Nazir, *Zakat Law*. pp. 166-7

<sup>30</sup> Shirazi, *System of Zakat in Pakistan*. p. 37

The data for the research on this thesis were collected between December 2002 and 2004. Before I give an account of the data, I would like to thank the people and the institutions that I mention in this section that helped me with data collection. Although most of the data were collected during the researcher's fieldwork in Pakistan from December 2002 to July 2003, some of the most important data, such as the HIES, were not acquired till April 2004.

Pakistan's libraries and archives are a far cry from what one encounters in the western world. Most of these libraries and archives are nominal as there is no systematic method of record keeping. It would not be a gross exaggeration to state that the concept of data preservation is non-existent. Whatever is published is not catalogued either and remains mostly forgotten in some dark corner of a storeroom if not discarded. Thus whatever one can secure is either through sheer luck or influence via personal connections.

The present thesis thus suffers from such obstacles. The qualitative data from the Central *Zakat* Council are available until 1988. This could be due to the anti-Islam bias of the Bhutto government that succeeded Zia in 1988, and consequently curtailed the powers and the importance of the Central *Zakat* Council and thus the incentive for data-processing. Additionally, the published quantitative data on *zakat* disbursements made from the Central *Zakat* Fund at the national aggregate level since the launch of the system are of poor quality, and no consolidated data after 1992-93 are available (a fact acknowledged by the first Central *Zakat* Administrator, Mr. I. A. Imtiaz (1979-1985)).<sup>31</sup> Therefore, in this thesis, the last year for which data is recorded in the tables presented in the following chapters will range from 1988 to 1994 (till whatever year the data is available). The following is the

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<sup>31</sup> Imtiaz, "Management of Zakah Collection and Disbursement". p. 41

researcher's account of the way she secured data on *zakat* (only the institutions from which the researcher was able to secure data are described below).

The researcher's experience with the *zakat* personnel and most of the bureaucrats was that they appeared to be rather suspicious of her. The researcher's premier point of contact was the Joint Secretary Khalid Rashid (Ministry of Finance), who provided contacts he believed to be useful for information on *zakat*. From then on the researcher met up with many people, not all of whom were useful in providing data per se but were instrumental in introducing her to others who could potentially be helpful.

The Minister for Religious Affairs, Mohammad Syed Ghazi, was particularly helpful. He granted the researcher access to the library of the Ministry. Sadly, the library did not hold material according to any cataloguing system and was shockingly devoid of primary sources or even official publications on *zakat*. The *Zakat* and *Ushr* Wing of the Ministry of Religious Affairs, which houses the Central *Zakat* Administration, also held no records on *zakat* and proved to be of little use in providing much practical help. The people met were Nusratullah Khan (Senior Joint Secretary), Nisar Ahmed Goraya (Director Accounts) and Suleiman Shah Afridi.

However, the Council of Islamic Ideology proved to be extremely helpful. In this regard the Director General of the Council, Dr Murtaza Azad, furnished the researcher with the original copies of the annual reports of the Central *Zakat* Council from 1977 until 1988 (which should have been at the library of the Ministry of Religious Affairs) from their library and also provided photocopies of parts of the Council's annual reports.

The Federal *Shariat* Court was a source of little but useful information. In this regard the Senior Advisor, Fazal Elahi Qazi, was very helpful. The Director of *Zakat* Audit, Farah Ayub Tarin, obligingly provided the researcher with a few published *zakat* audit reports from 1991-95.

As the researcher obtained little data despite her efforts she visited and met up with many officials from the Ministry of Finance, the State Bank of Pakistan, the Central Board of Revenue (which provided some of its annual reports on taxation) and the Planning Commission of Pakistan, in the hope of getting any sliver of data available on *zakat*. These visits and the leads that they provided were educational but not very fruitful in research terms.

The libraries that the researcher visited in Islamabad were the National Library, library of the National Assembly Secretariat and the Senate of Pakistan. Mr Hattar at the National Assembly library was very cooperative and the researcher managed to look at the debates of the Majlis-e-Shura (Zia's hand-picked Parliament) for any discussion of *zakat*. However, *zakat* did not appear in these debates in a way that would prove useful for any coherent analyses. Then there was the library of the International Institute of Islamic Economics (at the International Islamic University, Islamabad). The Dean, Zafar Ansari, and the Rector, Justice Khalil-ur-Rehman, were very enthusiastic about the researcher's project and offered their full support. This came in the form of providing any material on *zakat* they had (which was mostly of a secondary nature). As an outsider and a woman who did not wear the *hijab* the researcher could not access the library herself but Mr. Nauroz, the assistant librarian, took it upon himself to bring the relevant sources to the researcher to be photocopied.

In Islamabad the researcher also visited the Institute of Policy Studies and met up with Professor Khursheed Ahmed (a well-known Islamic economist who was asked by Zia to head the Planning Commission of Pakistan in 1977) and tape-recorded an interview with him about the passing of the *Zakat* Ordinance. Another institution visited was the Pakistan Institute of Development Economics, from where the researcher acquired published articles on poverty in Pakistan but nothing specifically on *zakat*.

A source from where the researcher secured most of her qualitative data, including relevant sections of the annual reports of the Council of Islamic Ideology and annual reports of the Central *Zakat* Council, was the Administrative Staff College in Lahore. It is the only library that the researcher visited and found to be decently catalogued with a competent staff in the Assistant Librarian Naeema Naeem and Librarian Talat Ali Sher.

The last bit of data the researcher secured from Islamabad was the quantitative data, namely the Household Integrated Economic Surveys. The researcher paid Rs. 6000 for the data (which is the official requirement). However, the data were recorded in an obsolete computer language called ‘Cobol’, and could not be read by any modern computer system. Hafeez Ahmad, a systems analyst who furnished the researcher with the data, promised to convert some variables into an Excel spreadsheet. The researcher got eleven variables converted into Excel out of the fifteen requested (out of the whole database). Such were the circumstances and constraints under which the researcher had to operate and scrounge for any bit of data on *zakat* that could be secured.

## **Outline of the Thesis**

Chapter One sets the background for the central question of the thesis. It reviews the philosophy of the Islamic economic system of which *zakat* is an integral part. It evaluates the sources from where the Islamic economic philosophy originates. The chapter also explains the beginning of the modern concept of Islamic economics and thus presents a literary survey of the works of the twentieth century Islamic scholars who have contributed towards the initiation of the discipline of Islamic economics. It also presents the thoughts of historical Muslim figures who contributed to the evolution of the Islamic economic thought. The chapter ends by trying to assess the goals of the Islamic economic system.

Chapter Two analyses the tools of the Islamic economic system, including the Islamic state, *modarabah* (profit and loss sharing) and the absence of *riba* (interest), and *zakat*, through which the goals of the system have to be realised. It puts special emphasis on *zakat* and puts forward the viewpoints and claims of the Islamists regarding it. The chapter also analyses the political economy of Islamic welfare policy-making and assesses the repercussions for a policy formulated under an Islamic political system or the Islamic state. Lastly, the chapter endeavours to underline the fact that a policy based on a religious premise still needs the state's commitment to the policy and the creation of trust between the state and the individual to make it effective.

Chapter Three sets *zakat* within the history of Islam in Pakistan. It starts by reviewing the importance and development of *zakat* within the country's historical evolution. This chapter also explores the reasons for Zia's formal introduction of *zakat* in Pakistan. The chapter proceeds to study the *zakat* policy-making process and examines the influences on the policy under Zia's Islamic state within the framework of the political economy of the Islamic welfare policy mentioned in Chapter Two.

Chapter Four evaluates the pattern of *zakat* giving at the national aggregate level and also at the household level. The chapter puts the analysis within a framework in which it conducts an historical investigation of the kind of governments that came to power in Pakistan after its establishment and their demonstration of credible commitment to their declared objectives for the people of Pakistan. The chapter shows the way in which this historical lack of commitment affected the development of trust between the state and its citizens. It proceeds to show how this bigger historical context affected the revenue-raising capability of *zakat*. Based on the framework presented in Chapter Two regarding the importance of trust, the chapter aims to show how the level of state commitment towards *zakat* per se affected the creation of trust between the state and the individual and how it affected the *zakat*'s achievements.

Chapter Five tries to assess the benefits of *zakat* in Pakistan keeping in mind the state's commitment to the *zakat* policy as discussed in Chapter Four. It offers a narrative of the historical development of social welfare in Pakistan since its creation in 1947, in order to acquaint the reader with the conditions of social welfare before the introduction of *zakat*. The chapter then examines the disbursement of *zakat* at the national aggregate level and then at the household micro level to address the specific question of *zakat* and its ability to alleviate poverty. Lastly, the chapter investigates the effects of *zakat* on income inequality in Pakistan.

The Conclusion sums up the arguments and the hypothesis forwarded in the preceeding chapters and consolidates the answer to the question posed in the thesis i.e. if *zakat* delivered welfare and justice in Pakistan between 1980-1994. It concludes that there exists

a wide gulf between the ideological aspirations of the Islamists and the official objectives of *zakat* on the one hand and the way *zakat* performed on the ground on the other. It deduced that *zakat* underperformed regarding its objectives of poverty eradication and inequality reduction. Finally it expresses a few thoughts on how *zakat* may be salvaged on practical grounds and live up to its ideological stance.



## Chapter One

### Understanding Islamic Welfare Ideals

#### Introduction

The aim of this chapter is to contextualise the main question of my thesis, that is, did *zakat* deliver welfare and justice in Pakistan between 1980 and 1994? Grasping the nature of this question is important, as it will prove to be indispensable for the orientation of the reader as the analyses unfold. As *zakat* originates from the economic ideals of the philosophy of Islam, it is not possible to fathom its true nature and importance unless assessed in the light of Islamic economic philosophy of which it is a central pillar.

Thus, this chapter not only introduces Islamic economic philosophy, it also examines its sources, and the works of its proponents (modern and early modern literature). It aims to contextualise, theologically and theoretically, *zakat* within Islamic economic thought and seeks to contribute to the understanding of the nature of the Islamic economic system, which is central for grasping the character and rationale of *zakat* and thus the central question of this thesis.

In recent decades Islamic economic philosophy has been trying to take a definite shape in the form of an Islamic economic system. The adherents ('Islamists') of this system claim that it is quintessentially geared towards not only the welfare of the individual but of society as a whole and pays utmost regard to equality and justice. Islamists insist that the Islamic economic system is more welfare-oriented than the secular economic systems such as Capitalism or even Socialism. It is important to clarify at this juncture that this chapter

does not aspire to give a comparative analysis of the Islamic economic system and Capitalism, Socialism or Communism, as it is concerned solely with the critical investigation of the premises on which the Islamic economic system is based.<sup>32</sup> This chapter will direct its evaluation exclusively to the claims of the Islamists with regard to their notions of welfare and justice in an Islamic economic system and examine the extent of the welfare orientation of this system.

The analyses of this chapter are based on secondary sources and aim to comment on, and examine the nature of established theories and ideas propounded by various Islamic thinkers and economists. Section 1.1 reviews the origins and development of Islamic economics. It introduces the works of the personalities who have contributed to its advancement as an economic discipline. Section 1.2 presents an analysis of the main sources, such as the *Quran*, *Hadith* and the *Sunnah*, from which the philosophy of Islamic economics originates. Section 1.3 elucidates upon the philosophy of the Islamic economic system and examines the tenets on which Islamic economics is based. Finally section 1.4 focuses on the goals of the system.

### **1.1 The Formalisation of Islamic Economics**

The development of Islamic economics in the latter part of the twentieth century was intended to form an Islamic social order and provide an answer to the economic crises of

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<sup>32</sup> For such an analysis from an Islamist's perspective, see M. A. Rauf, *The Islamic Doctrine of Economics and Contemporary Economic Thought: Highlight of a Conference on a Theological Inquiry into Capitalism and Socialism* (Washington: American Enterprise Institute for Policy Research, 1979). M. U. Chapra, *Islam and the Economic Challenge* (Leicester, UK: The Islamic Foundation, 1992), M. Kahf, "A Contribution to the Theory of Consumer Behaviour in an Islamic Society" (paper presented at the Studies in Islamic economics: a selection of papers presented to the first International Conference on Islamic economics held at Makka under the auspices of King Abdul Aziz University, Makka, February 21-26 1976). For a powerful critique of Islamic economics from a mainstream neo-classical perspective see T. Kuran, *Islam and Mammon: the economic predicaments of Islamism* (Princeton, NJ: Princeton University Press, 2004).

the developing world (mostly the Muslim World). Islamists felt that Capitalist, Communist and Socialist ideologies had failed to provide welfare and economic justice to the people of the Muslim world and thus felt the need to develop a system through which these people would achieve a just society. They wanted to establish a system that would be different from the ideology of Capitalism (which they viewed as being based on individualistic, selfish and acquisitive men and women, who worked to serve their own interests, giving secondary consideration to the welfare of the people). They also believed that the Islamic system did not, in any way, reflect the ideology of Socialism, which they regarded as reflecting the other extreme, i.e. of nationalising the means of production, thus killing individual incentive, and additionally, denying the individual the chance to exercise his/her initiative.<sup>33</sup> Additionally, they asserted that the Islamic system would not be akin to Communism, in which people were community oriented and denied the right of freedom to own, and where potential individual entrepreneurship was crushed by the dominant state's interference in the economy.<sup>34</sup> Islamists asserted that they would achieve their goal of a welfare-oriented and a just economic society through a third way; known as the way of Islam, which would manifest itself in the form of the Islamic economic system.

In addition to this rationale, a reaction to Western colonialism was also implicated in the development of the Islamic economic discipline. Islamists from around the world and from various walks of life and social orders felt that Muslims had no reason to adhere to alien prescriptions for economic development imposed on them based on secular perceptions. They sought to develop economic strategies based on Islamic philosophy, which, as they

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<sup>33</sup> Rauf, *The Islamic Doctrine of Economics*. pp. 17-19

<sup>34</sup> M. N. Siddiqi, "Muslim Economic Thinking: A Survey of Contemporary Literature" (paper presented at the Studies in Islamic economics: a selection of papers presented to the first International Conference on Islamic economics held at Makka under the auspices of King Abdul Aziz University Makka, February 21-26 1976).pp. 242-43

thought, would solve the economic problems of the poor Islamic countries and bring about a fair allocation of resources, thus creating a more equal society.

The 'open door' attitude of some Islamic governments to Islamise their countries also spurred attempts to theorise economic injunctions of Islam. However, it would not be inappropriate to state that Islamisation in such cases was more geared towards the fulfilment of political ambitions rather than any earnest desire to see the Islamisation of the economy.

In 1976 the First International Conference on Islamic Economics took place in Mecca, and was attended by over two hundred Islamists from all over the world, heralding the birth of a new economic discipline.<sup>35</sup> In 1981, the Islamic Development Bank (IDB) established the Islamic Research and Training Institute (IRTI), the purpose of which was to organise and conduct basic and applied research with a view to develop models and methods for the application of *Shariah* (Islamic law) in the field of economics, finance and banking. In this way the proponents of this discipline (who will be labelled 'Islamic economists' or 'Islamists' in the present thesis) tried to formalise the rationale and intent of Islamic economic philosophy and aspired to translate it into a methodical and workable system of economic activity.

### **Medieval Muslim Economic Thinkers**

Even before the modern interest in the revival of Islamic economic and socio-political thought, there were Muslims in the fourteenth to the nineteenth century who were engaged

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<sup>35</sup> K. Ahmed, "Problems of Research in Islamic Economics," in *Readings in the Concept and Methodology of Islamic Economics*, ed. A. Ghazali and O. Syed (Selangor Darul Ehsan Malaysia: Pelanduk Publications, 1989), p. 148

in the theoretical enquiry into economic activity. The early thinkers dealt with economics as 'the science of the regulations of the household' (*ilm tabir al-manzil*). Although the practical regulation of economic life had been treated to some extent by the canon law under the *Quran* and *Hadith*, theoretical research into the fundamentals of economic life started only after the study of philosophy began with the translation of Greek philosophical literature into Arabic in the ninth century.<sup>36</sup> Thus it is fair to state that most of the Muslim thinkers mentioned in this section cannot be strictly labelled as 'Islamic economists' as their theoretical enquiries were inspired by classical Greek literature. However, as these personalities were Muslims who were at the same time also inspired by the *Quran* and the *Hadith*, it would not be inappropriate to describe them as 'Muslim economic thinkers'.

The writings produced by the early Muslim thinkers comment on issues related to economic activity rather engagingly. The works of at least two authors ought to be named: *Kitab al-ishara ila mahasin al-tijara wa-marifa jayyid al-a rad wa-radi iha wa-ghushush al-mudallisin fiha* (The Book of Hint at the Beauties of Commerce and the Knowledge of Good and Bad Merchandise and the Swindlers' Falsification in Them) by al-Dimishqi, completed around 1175, and the second collection of works called the *Kitab al-I bar*, of which volume one is known as *Muqqaddima*, written in 1377 by Ibn-Khaldun.<sup>37</sup>

Dimishqi's book is considered to be a work of great importance dealing with the knowledge of many wares and their counterfeit substitutes, and with the theory and practice of commerce and economic subjects. He examined questions such as the true meaning of wealth and ownership, the various kinds of possession, the origins and use of money, how

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<sup>36</sup> J. DeSomogyi, "Economic Theory in Classical Arabic Literature," *Studies in Islam* II (1965), p. 1

<sup>37</sup> See the two articles by J. DeSomogyi, "Economic Fundamentals in Classical Arabic Literature," *Studies in Islam* III, no. 3 (1966). And DeSomogyi, "Economic Theory in Classical Arabic Literature."

to determine the average prices of goods, and how to protect property. He was the first to declare that value is inherent in everything suitable to the satisfaction of human needs reflected in the price of the commodity. It appears from his work that rather than viewing economics as a religious discipline, his views preceded the modern Western view of economics, seeing it as a positivist discipline. Additionally, Dimishqi's work comments upon and analyses the positivist aspects of economic activity of his time rather than chastising the economic agent with references to religion.<sup>38</sup>

The second of the great works among the early Muslim economic thinkers was written by a famous Tunisian-born Arab called Ibn-Khaldun in the fourteenth century. He was an *avant-garde* thinker and is considered by some to be the father of sociology. He is known primarily for his work on the history of the world, called *Kitab al-I'bar*, of which volume one, known as *Muqqaddima*, is devoted to economic concerns and is considered to be a pioneering work on the discipline.<sup>39</sup>

In this treatise, Ibn-Khaldun elaborates upon the theories of production, value and distribution, which in turn combine into a coherent general economic theory, constituting the framework for his analysis of world history. Although his commentary upon economics makes constant references to the *Quranic* injunctions incumbent upon a Muslim, he offers an intrinsic acknowledgement of the *homo economicus*.<sup>40</sup>

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<sup>38</sup> DeSomogyi, "Economic Theory in Classical Arabic Literature." p. 2. DeSomogyi, "Economic Fundamentals in Classical Arabic Literature." pp. 115-118

<sup>39</sup> J. D. C. Boulakia, "Ibn-Khaldun: A Fourteenth Century Economist," *Journal of Political Economy* 79, no. 5 (1971).p. 1117

<sup>40</sup> Ibid. However, there were some other medieval Muslim thinkers such as al-Ghazali (958-1111) and Ibn-Taimiyah (1263-1328), whose work was heavily inspired by Islamic religious sources. Their works are sometimes reflected in the works of some modern Islamic economists such as Chapra, M. N. Siddiqi, and Kahf to name a few.

### Early Islamic Thinkers

Almost four hundred years later, it was the *Ulema* (Islamic scholars) in the mid-eighteenth to early nineteenth century who were instrumental in the inception of the discipline we now study as Islamic economics. These *Ulema*, such as Shah Wali Ullah (1703-1762) and Mohammad Iqbal (1873-1938), although not economists, were great theologians and well versed in *fiqh* (Islamic jurisprudence). It was also they who offered the economic aspects in Islam as an economic ideology based on religious doctrines immersed in morals and dogmas.

Shah Wali Ullah was one of the first to realise the intellectual, social and cultural degeneration of the Muslim World. He laid the foundation of the Islamic doctrinal resurgence in the Indian Sub-continent and became a source of inspiration for almost all the subsequent Islamic social and religious reform movements of the nineteenth and twentieth centuries.<sup>41</sup>

He believed that the introduction of Islamic codes of behaviour in every sphere of life, starting from the personal, spiritual to the social, economic and the political arenas would be the decisive element in the restoration of the Islamic *Shariah* and thus Muslim self-esteem. In order to achieve this end he translated the *Quran* into Persian<sup>42</sup> (the language of the officials and the ruling Muslim elite of the Indian Sub-continent) so that the message of Islam could be made available to the understanding of the dominant Muslim elite. Centuries

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<sup>41</sup> Shah's influential contemporary was Abdul Wahhab (1703-1792). Whereas Waliullah stood for a dynamic interpretation of the *Sharia* and a revival of *Ijtihad* as a tool for making the practice of Islam relevant to the times, Wahab's approach was in sharp contrast. He stood for rigidity with the aim of evoking an understanding and interpretation of Islam firmly grounded in the times and conditions of the seventh century.

<sup>42</sup> Pakistan Historical Society, *A History of the Freedom Movement 1707-1947*, ed. Board of Editors, vol. I 1707-1831 (Karachi: 1957), pp. 493-500

later, his efforts were instrumental in providing the impetus for the institutionalisation of the Islamic political and economic system in the Muslim world.

One of Shah's most important contributions was his stress on the need for *Ijtihad* (independent interpretation) in Islamic law. This meant interpreting cases and situations in accordance with present times while keeping the classical precedence in view. While he considered reverting to the original and classical form of Islam, i.e. Islam during the years of the Prophet Mohammad and his four Caliphs, he also believed that *taqlid* (rigid conformity or orthodoxy) was an important element responsible for the lack of awareness and of the social backwardness of the Muslims.<sup>43</sup> His idea of reverting to the classical form of Islam inspired some modern Islamic economists to use the same reasoning when interpreting classical sources, such as the *Quran*, in formalising the discipline of Islamic economics.

Iqbal (1897-1938) was another personality whose socio-economic thought exerted immense influence on the development of Islamic economic thought in the late nineteenth and early twentieth centuries. His poetry, philosophy, and political thought provided a backdrop for the development of Islamic economics in the twentieth century.<sup>44</sup>

Iqbal was a scholar of *fiqh*, and Islamic law was his answer in seeking a way out of the economic, social and political underdevelopment of the Muslims. He entertained notions of equity via *zakat* and justice via Islamic law. He viewed the Islamic social order to be

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<sup>43</sup> Ibid, pp. 504-505 & 536-39

<sup>44</sup> A. Ahmed, *Islamic Modernism in India and Pakistan, 1857-1964* (Karachi: Oxford University Press, 1967).p. 141. Apart from these Islamic revivalists in the Indo-Pak sub-continent there were other Islamic revivalists in the Islamic world. The five most prominent during the latter half of the nineteenth century were: Jamal al Din al Afghani (1838-97) in Iran, Namik Kemal (1840-88) and Zia Gokalp (1876-1924) in Turkey, Muhammad Abduh (1849-1924) in Egypt and Rashid Rida (1865-1935) in Syria.



distinct from any system that the West had introduced in the world. It was he who introduced the belief that whatever the positive or practical result of Capitalism, Communism and Socialism might be for the West, he considered these 'isms' to be incapable of bringing about prosperity for the Muslim world.<sup>45</sup> He believed this could be achieved only through the Islamic ideals of equality and justice.<sup>46</sup>

The writings of Shah Wali Ullah and Iqbal identify a number of desirable economic outcomes such as social welfare and justice for all, but provide no definite guidelines for the institutionalisation of Islamic economics. Nor do they articulate ideas geared specifically towards providing Islamic solutions to economic problems. However, one can definitely argue that their ideas were thought provoking and that such ideas held the basis of the conception of modern Islamic socio-economic thought.

It was *Ulema* such as Syed Abul A'ala Mawdudi, also an expert on Islamic *fiqh*, who in the mid-twentieth century started formalising statements regarding the economic attitude of Islam. However, his formalisation lacked any profound knowledge of the discipline of conventional economics. In 1932 he started his own publication of *Quranic* exegesis, called *Tarjuman-al-Quran*. The journal was to revive conformism and conservatism in all the social traditions of Islam. He advocated that the laws and traditions of Islam, which were valid fourteen hundred years ago, were applicable in contemporary societies, as the canon laws of Islam hold good for all times.<sup>47</sup> Mawdudi followed the vein of Islamic orthodoxy in theology and set out to shape the economic commandments of the *Quran* into a workable economic theory.

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<sup>45</sup> J. Iqbal, *Ideology of Pakistan* (Lahore: Pakistan Movement Workers Trust, 1971).p. 17

<sup>46</sup> *Ibid.* p. 52

<sup>47</sup> Ahmed, *Islamic Modernism*. pp. 216-217

Mawdudi founded one of the leading institutions for the revival of Islamic social, political and economic thought, called the Mansura Academy, in Lahore in 1963. The institution's curriculum attempted to find solutions to the socio-political and economic problems facing the Muslim countries. Special attention was given to the codification of Islamic law and to the development of an Islamic economic system through the preparation of pioneering literature for its practical implementation according to the needs of Muslims.

The above-mentioned *Ulema* considered the position of the *Shariah* on various economic questions and although their contribution to the development of Islamic economics was not 'economic theory' as such, their work created a point of departure on which Islamists trained in conventional economics could base their hypotheses.<sup>48</sup>

### **Modern Islamic Economists**

For a better understanding of what is presently known as Islamic economics, this section introduces the group of modern Islamists who are trained economists and actually responsible for the formal inauguration of the discipline. It was they who moulded the early Islamic economic thought of the *Ulema* into a potentially workable economic system.

These economists started by using secular economic logic to question Islamic doctrines regarding the individual's economic behaviour. This practice yielded a conflicting and confusing theoretical hybrid. It also led to disagreements between *Ulema* trained in *fiqh* and Islamic economists over such fundamental issues as the prohibition of *riba* (to quote one

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<sup>48</sup> M. A Khan, "Islamic Economics: The State of the Art," in *Readings in the Concept and Methodology of Islamic Economics*, ed. A. Ghazali and O. Syed (Selangor Darul Ehsan Malaysia: Pelanduk Publications, 1989), p. 122

example). *Fiqh*-trained Islamists put an absolute ban on *riba* whereas some Islamic economists tend to be divided on its outright prohibition and instead prefer to weigh the economic implications of its proscription. Despite their knowledge of economics, Islamic economists cannot boast a mastery of Islamic jurisprudence and other Islamic disciplines, and those who are equipped with the knowledge of the latter disciplines are deficient in their understanding of economics. The result of this predicament is that there seems to be a lack of fusion and interaction between formal economics and Islamic economic ideas. It appears that there is still a long way to go before Islamic economics comes up to the standards of conventional neo-classical economics where consistency, meticulousness and pragmatism in theorisation and application are concerned.

This chapter analyses the works of six widely quoted and acknowledged mainstream Islamic economists (among many other prominent ones). They are the pioneers and founders of what we know to be Islamic economics and how it stands today. They are M. N. Siddiqi,<sup>49</sup> A. Rauf,<sup>50</sup> M. Kahf,<sup>51</sup> M. A. Manan,<sup>52</sup> M. U. Chapra<sup>53</sup> and Z. Ahmad.<sup>54</sup> These writers are all strong proponents of Islamic economics and are devoted to its dissemination. Most are affiliated with the Islamic Research and Training Institute of the Islamic Development Bank or the King Abdul Aziz University in Jeddah as professors or senior researchers. They are also active in other institutions operating for the development and

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<sup>49</sup> M. N. Siddiqi, "Economics of Islam," *Islamic Thought* 14, no. 3 (1971).

<sup>50</sup> Rauf, *The Islamic Doctrine of Economics*.

<sup>51</sup> Kahf, "A Contribution to the Theory of Consumer Behaviour in an Islamic Society", Kahf, "Zakah Management in Muslim Societies."

<sup>52</sup> M. A. Mannan, *Islamic Economics: Theory and Practice* (Sevenoaks: Hodder and Stoughton, 1986).

<sup>53</sup> M. U. Chapra, *The Economic System of Islam A Discussion of its Goals and Nature* (London: The Islamic Cultural Centre, 1970), Chapra, *Islam and the Economic Challenge*, M. U. Chapra, "The Islamic Welfare State and its role in the Economy" (paper presented at the Studies in Islamic economics: a selection of papers presented to the first International Conference on Islamic economics held at Makka under the auspices of King Abdul Aziz University, Makka, February 21-26 1976), M. U. Chapra, *Towards a Just Monetary System: A Discussion of Money, Banking and Monetary Policy in the Light of Islamic Teachings*, vol. 8, *Islamic Economic Series* (Leicester: The Islamic Foundation, 1985).

<sup>54</sup> Z. Ahmad, "Public Finance in Islam", September 6, 1989, The International Monetary Fund, Washington

propagation of Islamic economics and banking, such as the Islamic Foundation in Leicester (UK). Siddiqi, Kahf, Chapra and Mannan have all received the Islamic Development Bank's award for Islamic economics or the King Faisal International Award for Islamic Studies for their contribution to the development of this subject. The chapter will also comment on the works of other Islamic economists, Nawab Haider Naqvi<sup>55</sup> and Khurshid Ahmed.<sup>56</sup>

Although all of the above can be described as Islamic economists, their stance on various economic issues discussed below can sometimes differ from one another. Some Islamic economists reject Western economic models outright and stress the need to return to classic Islamic values and ethics, while others attempt to utilise Western economic models without losing touch with the fundamentals of the Islamic faith. Nonetheless, all these writers can still be examined under the joint umbrella of the general analysis of the Islamic economic system, because they all concur on the fundamentals of the Islamic economic system, i.e. the philosophy with its normative aspects, and the sources and the tools.

One of the few writers to have produced a critical analysis of the works of the above-mentioned economists is Timur Kuran.<sup>57</sup> Although Kuran is the King Faisal Professor of Islamic Thought and Culture at the University of Southern California, he cannot be

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<sup>55</sup> S. N. H. Naqvi, *Islam, Economics and Society* (London: Kegan Paul International, 1994).

<sup>56</sup> Ahmed, "Problems of Research in Islamic Economics." K. Ahmad, ed., *Islamic Law and Constitution* (Lahore: Islamic Publications Ltd., 1958).

<sup>57</sup> T. Kuran, "Economic Justice in Contemporary Islamic Thought," in *Islamic Economic Alternatives: critical perspectives and new directions*, ed. K. S. Jomo (London: Macmillan Academic and Professional, 1992), T. Kuran, "The Economic System in Contemporary Islamic Thought: A Critical Interpretation," in *Islamic Economic Alternatives: critical perspectives and new directions*, ed. K. S. Jomo (London: Macmillan Academic and Professional, 1992), T. Kuran, "Further Reflections on the Behavioural Norms of Islamic Economics," *Journal of Economic Behaviour and Organisation* Vol. 27 (1995), T. Kuran, "Islamic Economics and the Islamic Subeconomy," *Journal of Economic Perspectives* 9, no. 4 (1995), T. Kuran, "Islamic Redistribution Through Zakat: Medieval Roots of Contemporary Problems" (paper presented at the Poverty and Charity in Middle Eastern Context, Ann Arbor University of Michigan, May 4-7 2000).

categorised as an Islamic economist, but is rather a new institutional economist. His research draws on multiple disciplines such as economics, political science, sociology, psychology, history and legal studies. Kuran's work provides a crucial critical review of Islamic economic literature and discipline, and has generally expressed dissatisfaction with the way in which the Islamic economists have failed to develop an articulate and a workable Islamic economic system.

Islamic economics is made up of normative statements because assumptions regarding an individual's behaviour are not based on actual observation. There is lack of proper theorising of consumer or firm behaviour. Whatever hypotheses Islamic economists propound are conceptual in nature and lack modern empirical evidence. As a result of this predicament, Islamic economics also lacks study into institutional arrangements that might force or encourage an individual to behave according to Islamic ideals. The normative nature of the discipline makes many of its doctrines non-verifiable. This has to be kept in mind when analysing the Islamic economic system or when comparing it with an operational and a positive economic discipline.

Islamic economists are fully aware of these limitations but continue to stress that the subject deals with an ideal Islamic society and would only work under an all-embracing Islamic environment. Their explanation for non-achievement is that there is no single fully developed Islamic society in the world, and therefore a Muslim's behaviour is constrained. This makes Islamic economic theory impossible to apply in practice and thus non-verifiable. Islamists argue that the presence of an Islamic state that would be able to create the right environment, via education or even coercion, for Islamic norms to flourish would then make the testing of hypotheses possible.

In response, it would be fair to conclude that the introduction of Islamic economics in a country starts with the imposition of the fundamentals of the system, for example, the introduction of *zakat*, abolition of *riba*, introduction of *modarabah* and the presence of an Islamic state. Once these fundamentals exist, then one can safely assume a country to be Islamic and following an Islamic economic system, intimating to a social scientist that he/she can conduct analyses of such a country's Islamic policies. For example, if a country has had fundamental Islamic policies imposed in its economy (say for 10 years), then one can suppose the time to be ripe to conduct economic or political analyses of such a country's Islamic policies, as by this time, the Islamic state of such a country would have exerted enough power to educate or coerce people into abiding by Islamic economic doctrines. Additionally, a Muslim's behaviour would not be constrained by un-Islamic economic considerations, as 10 years is sufficient time for him/her to internalise the philosophy of Islamic economics imposed with the assistance of the Islamic state.

There is an ongoing effort to establish Islamic economic institutions in many Islamic countries, and there are some countries, such as Pakistan and Malaysia, which have taken relatively serious measures to Islamise their economic and political institutions. These measures include interest-free banking and Islamic modes of finance and *zakat*. In Pakistan, especially, such efforts have been going on for the past 25 years, so at this point there should be enough potential for applied research on Islamic policies. These studies could demonstrate how normative Islamic economics has translated itself into a positive one, with what level of success and whether the Islamic social welfare system has been effective in delivering its declared objectives of welfare and justice.

In the light of the work of the authors mentioned above, this chapter begins by describing the sources from where Islamic economic philosophy originates.

## 1.2 Sources of Islamic Economic Philosophy

Islamic economic philosophy has its roots in the core sources of Islam, i.e. the *Quran*, *Hadith* and the *Sunnah*. These are responsible for the inspiration, emergence and development of thought, tradition and philosophy of Islamic economics. Through these sources Islamic economists and jurists seek to answer every conceivable question dealing with all types of human interaction in society, politics and economics. However, if an answer cannot be found in these sources then resort is made to the principle of analogy.<sup>58</sup> Hence it is important to examine these sources, which would help in explaining some limitations of the system, before we embark on analysing its philosophy and tools.

After the death of Prophet Mohammad, Muslims were left with a void, as immediate answers to social issues were difficult to obtain in his absence. The Prophet would provide solutions to varied issues in his lifetime, but after his death the only source left with the Muslims was the *Quran*. The *Quran* is considered a major and an indispensable source for all dimensions of the Islamic faith and is the source of all Islamic law. However, the *Quranic* law is not a legal code in the modern sense of the term. It is a written revelation, and for Muslims it is the book of *Allah*.<sup>59</sup>

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<sup>58</sup> Rauf, *The Islamic Doctrine of Economics*. p. 2

<sup>59</sup> Mannan, *Islamic Economics: Theory and Practice*. p. 29

In its present form, the *Quran* was compiled and organised *sura* by *sura* (verse by verse) in a uniform manner by Usman (644-656 AD), the third Caliph.<sup>60</sup> However, this compilation is not free of controversy. This is because Usman's personality in the Islamic history is more revered by the *Sunni* sect of Islam than by the *Shia* sect, as the latter regard him as a historically controversial figure, especially where the compilation of the *Quran* is concerned. This state of affairs has important consequences for the universal validity of the *Quran* as a source of guidance for Muslims of all sects. According to some, the *Shias* accuse Usman of omitting verses relating to the glory of Ali, the fourth Caliph (and son-in-law of the Prophet), whom the *Shias* hold as the spiritual and political successor of the Prophet and thus their first *Imam* (spiritual leader).<sup>61</sup> What this implies is that there can be divergent readings of the *Quran* regarding different traditions between these two major sects. This of course holds true for economic issues as well. An important example of this is the fact that the *Shias* refuse to pay *zakat* to the state as they consider it to be against their belief to pay it to the state. Consequently, their *zakat* payments are at an interpersonal level.

Very few phrases in the *Quran* deal with economic matters, and those that do are not specific enough to provide unambiguous guidance.<sup>62</sup> A characteristic of the *Quran* that would cause confusion for the reader is the fact that some legal stipulations are followed by cryptic phrases like: 'And, Allah is Mighty, Wise and knows best.' Such phrases, when preceded or followed by a verse (from which one is to stipulate an analogy), greatly obscure the logic for deduction or reasoning.

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<sup>60</sup> [www.usc.edu/dept/MSA/history/chronology](http://www.usc.edu/dept/MSA/history/chronology), *A Brief Chronology of Muslim History* (University of Southern California, 2007 [cited April 9 2007]).

<sup>61</sup> H. Lammens, *Islam: beliefs and institutions*, trans. Sir E. Denison Ross, *Islam and the Muslim World*; no. 6 (Frank Cass and Co., 1968).p. 41. The *Quran* was revealed to the Prophet verse by verse over approximately 23 years (610- 632 AD)

<sup>62</sup> Kuran, "Further Reflections on the Behavioural Norms of Islamic Economics."p. 161



To resolve this problem the *Quranic* scholars indulged in intellectually sophisticated reasoning to clarify obscurities in the meaning of the *Quran*. This branch of *Quranic* discourse is called *tafsir* or *Quranic* exegesis.<sup>63</sup> The rationale of this science of *tafsir* was to explicate with clarity the philosophy of ethics, codes of politics and laws of state and sovereignty. The pride that the scholars of this science took was in the certitude that these exegeses were free from logical inconsistencies, and presented the *Quran* in a way that crystallised its directives for everyday life. The number of these commentaries is innumerable and the disciplines they cover are vast.<sup>64</sup> Therefore one observes that the *Quran* becomes the source from which all Islamic activity is derived, including of course the philosophy of Islamic economics. Considering the vast array of disciplines for which the *Quran* is interpreted, it is not difficult to see that the meanings one can derive from *Quranic* verses for a solution to a specific problem, whether social, political or economic, can be myriad i.e. possess many meanings for many people especially in a multi-sectarian society and among individuals with differing and conflicting interests.

The second source of knowledge on Islam and its economic philosophy for the Muslims are the *Hadith* and the *Sunnah*. The *Hadith* is the narration of the behaviour of the Prophet while the *Sunnah* is the law deduced from this narration. They are distinguished on the basis of being practical (*Sunnah*) and theoretical (*Hadith*). These are termed as the 'science of tradition' transmitted through a methodology known as *isnad*<sup>65</sup> and are a corpus of Islamic knowledge. The *Quran* enjoins upon Muslims to follow the conduct of the Prophet while the *Sunnah* is regarded as a dynamic source of law capable of handling contemporary

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<sup>63</sup> F. Schuon, *Dimensions of Islam*, trans. P. N. Townsend (London: Allen & Unwin, 1970), p. 61

<sup>64</sup> Z. Ahmed, "The Science of Quranic Exegesis," *The Islamic Literature* 4, no. 6 (1952), p. 24

<sup>65</sup> *Isnad* means tracing the chain of narrators of the *Hadith* all the way back to the Prophet. This was done by investigating the qualities of the narrator with regards to his memory, accuracy, truthfulness and objectivity. A. Kannoun, "The Hadith-Its Scientific and Religious Value," *The Islamic Review* 55, no. 1 (1967).

issues. For example, the *Quran* mentions *zakat* but does not lay down the details, whereas the details of its implementation can be deduced from the *Sunnah*, as it was the Prophet who explained them to his followers.<sup>66</sup>

It must be mentioned here that *Sunnah* contradicts *Sunnah*, and some scholars have been led to doubt that one is dealing with a unitary body of information.<sup>67</sup> This is because during the rule of the Umayyad Caliphs (661-750 AD), the *Hadith* and the *Sunnah* were corrupted. There were several political reasons for this conspiracy, which are beyond the scope of this thesis. The record of the *Sunnah* and the *Hadith* proliferated and by the ninth century the number had reached hundreds of thousands. These included pious fabrications by those who believed that their conduct was in conformity with Islam, and forgeries by factions involved in political and theological disputes. To overcome such limitations, throughout the ninth and tenth centuries Muslim scholars travelled all over the Muslim world collecting information on the narrators of the *Ahadith* (plural of *Hadith*) so as to check the authenticity of the source. It took two centuries after the promulgation of the *Quran* for the collection, publication and authentication of the *Ahadith* and the *Sunnah*.<sup>68</sup>

After this quest for authentication, six collections came to be authenticated: Ismail al-Bukhari, Muslim ibn-al-Hajjaj, Adu Dawud, Al-Nisai, Al-Tirmidhi and Ibn Maja.<sup>69</sup> Both

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<sup>66</sup> Mannan, *Islamic Economics: Theory and Practice*.p. 31

<sup>67</sup> J. Burton, *The sources of Islamic law: Islamic theories of abrogation* (Edinburgh: Edinburgh University Press, 1990).p. 3

<sup>68</sup> Kannoun, "The Hadith-Its Scientific and Religious Value." Other sources of Islamic law are called *ijma* and *ijtihad*. *Ijma* is a practice based on the consensus of either the community or the doctors of religion. The necessity for *ijma* is the realisation of emerging institutions and their regulation. A Mawdudi, *Islamic Law and Constitution* (Lahore: Islamic Publications Ltd., 1967).p. 62. *Ijtihad* is a general term for legal reasoning or interpretation. It deals mainly with the question of *Shariah* that emerges in society over time, but its ruling cannot be the same for all times.

<sup>69</sup> J. P. Esposito, *Islam* (Oxford University Press, 1991).p. 81. What has to be kept in mind is the fact that these sources belong to the *Sunni* sect; the *Shias* have their additional sources of *Hadith* and the *Sunnah* and the most important one of them is the *Jafari* School of Law.

the *Sunnis* and the *Shias* accept the *Sunnah* of the Prophet as an authoritative textual source, though they may differ on its context and thus its interpretation.

It is a matter of debate as to how these traditions can be interpreted with respect to the economic realities of the present world. Islamists believe that analogy is the way forward in such cases. But considering the contentious tendency of interpretations among some major Islamic sects, one becomes rather sceptical towards the workability and acceptability of analogies.<sup>70</sup> One comes to the conclusion that one is not dealing with an amalgamated body of literature as it is replete with internal contradictions and ambiguities. Contentions in the interpretation of the sources of Islamic economic philosophy give rise to questions about which interpretation of Islam is normative and appropriate for seeking solutions to economic conundrums. With so much left to interpretation it is unclear who should determine an enforceable economic perspective and whether it is possible to institutionalise an economic system that would confront the economic realities of the modern world and make it conducive to the welfare of diverse Muslim societies.

### **1.3 Islamic Economic Philosophy**

Islamic economic system derives its principles from the philosophy governing the monetary and the financial concerns of human beings in Islam. The purpose of this philosophy is to channel economic pursuits via Islamic ethics and thus lay the basis of the system's implementation. Therefore, Islamic economic philosophy is the point of departure for the understanding of the Islamic economic system.

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<sup>70</sup> I Goldziher, *Introduction to Islamic Theology and Law*, trans. Andras and R. Hamori, *Modern classics in Near Eastern studies* (N. L. Princeton: Princeton University Press, 1981).p. 50

The following exposition is a survey of the literature as it stands today. These analyses evaluate the Islamic economic philosophy from a welfare perspective and assess the fairness and justice aspects of the system. This section analyses the established system of beliefs on which the premise of Islamic economics rests.

It is not incorrect to state that religion in general has always, in major ways, influenced the direction and evolution of economic activity in various societies over centuries. From the ancient apocalyptic writers in 2000 B.C. to prophets such as Amos, Jesus and later Mohammad, philosophies based on theocratic reasoning have had implications for the way people behave in their economic dealings. These prophets had a vision of society for people where piety and righteousness were encouraged, which they said would lead to a brotherly, free, just and equitable society.<sup>71</sup> Whenever such philosophies have turned to methods of resource allocation, the result has been 'economic theology'.<sup>72</sup> Even in recent times sociologists such as Max Weber also acknowledged the nexus between religion and economics, because according to him it was the Protestant Ethic that laid the foundations of Capitalism in the West.<sup>73</sup>

Islamists consider Islam to be a complete religion with a code of behaviour encircling all aspects of human life, inclusive of its own distinct economic system. They assert that the economic system of Islam is better than other economic systems followed in the world today. According to them, the concept of social welfare is central to the Islamic economic

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<sup>71</sup> H. W. Laidler, *Social-economic movements: an historical and comparative survey of socialism, communism, co-operation, utopianism; and other systems of reform and reconstruction* (London: Routledge and Kegan Paul, 1949).p. 8

<sup>72</sup> J. S. Prybyla, *Comparative Economic Systems* (New York: Appleton Century Crofts Meredith Corporations, 1969).p. 69

<sup>73</sup> M. Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. T. Parsons, 2005 ed. (London & New York: Routledge, 1930).

system as it is based on values of equity and justice where societal welfare takes precedence over individual interests.

In the view of the Islamists, economic activity in Islam is regarded as a form of worship and that is why Islamic economic philosophy proposes that economics is not value free or a positive pure science, but has substantial normative aspects to its basis that act as its incentive structure. Islamists say that this normative approach would create the desired economic justice and therefore promote welfare in society.

Islamic economists lay out these normative aspects that form the basis for the incentive structure of the system as four axioms. These are Unity, belief in the Day of Judgement, Moderation, and Fairness. These axioms are the cornerstone of the faith of *homo Islamicus* and are demonstrated in his actions, consequently leading to economic justice in society.<sup>74</sup>

### Unity

The axiom of Unity declares that *Allah* is one; He created everything. Everything belongs to Him and everyone is subservient to His will. Man (*homo Islamicus*) is *Allah*'s vicegerent on earth and is vested with specific duties and responsibilities, both at an individual and collective level, which would lead towards the welfare of the society as a whole. The mission of *homo Islamicus* is to promote *Allah*'s cause, i.e. act in a way that would spread brotherhood and justice for all on earth. *Allah* has created man free, but it is not absolute

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<sup>74</sup> See Kahf, "A Contribution to the Theory of Consumer Behaviour in an Islamic Society".pp. 19-24. Siddiqi, "Muslim Economic Thinking".pp. 194-96. See also Chapra, *The Economic System of Islam A Discussion of its Goals and Nature*.pp. 11-16. For a definition of *homo Islamicus* see Kuran, "The Economic System in Contemporary Islamic Thought: A Critical Interpretation."

freedom that he is granted, and he has to act within the confines of the *Shariah*, which mark parameters for him regarding all aspects of his life.<sup>75</sup>

According to the Islamists, *homo Islamicus* is superior to the neo-classical economic individual, i.e. *homo economicus*, as unlike the latter he will not capitalise on his utility or profit at the expense of society, and will regard social good before his own. All the decisions of *homo Islamicus* regarding consumption and production will be guided by the *Shariah* norms, which would result in a just distribution of resources and wealth in society, hence advancing welfare.<sup>76</sup>

### Day of Judgement

The second axiom that formulates the incentive structure of the Islamic economic system is the *homo Islamicus*' belief in the Day of Judgement. In order to seek the pleasure of *Allah*, a Muslim would hold all things in this life as transitory, will commit good deeds and have faith that he will be answerable for his deeds on the Judgement Day.<sup>77</sup>

Islamists assert that this concept extends the time horizon of a Muslim to include the Hereafter, i.e. the individual would not limit his behaviour to doing things that will give him immediate benefit, but would have the motivation of attaining the goodwill of *Allah* in eternal life by committing fair and just actions towards his fellow brethren.<sup>78</sup> Thus a Muslim's actions would demonstrate that his ultimate concern is to keep societal benefit ahead of his own material gain.

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<sup>75</sup> M. Kahf, "Islamic Economics and its Methodology," in *Readings in the Concept and Methodology of Islamic Economics*, ed. A. Ghazali and O. Syed (Selangor Darul Ehsan, Malaysia: Pelanduk Publications, 1989), p. 76. See also, Siddiqi, "Muslim Economic Thinking". p. 195

<sup>76</sup> Chapra, *Islam and the Economic Challenge*. pp. 206-208

<sup>77</sup> Kahf, "Methodology of Islamic Economics." p. 76

<sup>78</sup> Siddiqi, "Muslim Economic Thinking". p. 244

### Moderation

According to the Islamists the satisfaction of the Islamic consumer should lie with the fact that he is living up to the Islamic standards of *israf* (avoiding excessive consumption),<sup>79</sup> i.e. he would be 'moderate' in his drive for consumption and not be 'extravagant'. However, extravagance is described rather loosely in Islamic economic literature. It is defined as excess of what is necessary to fulfil a need, which implies not making big departures from the standard patterns of consumption in society.<sup>80</sup> They say that the standard patterns of consumption are established by the status and the income of the individual and the general level of wealth in the society. According to them, moderation in consumption would solve the scarcity problem through the lowering of aggregate demand.<sup>81</sup>

It would be pertinent here to raise concern vis-à-vis the ideal of 'moderate consumption'. With regard to the current economic condition of the Muslim countries, 'moderation' (whatever methodology Islamic economists decide upon for its measurement) might have the effect of reducing the already low level of consumption. This might lead to the lowering of the aggregate demand, which might in turn lower economic growth. If consumption is to be limited to need fulfilment and pursued as an absolute standard of consumption at all times, then demand cannot act as an engine for growth with its implications for general welfare of the Islamic masses. Therefore moderation in consumption in itself may not be sufficient to improve social welfare.

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<sup>79</sup> M. A. Chaudhry, *Contributions to Islamic economic theory: a study in social economics* (London: Macmillan, 1986).p. 17

<sup>80</sup> M. N. Siddiqi, "Chand ma'ashiyati haqiqaten," *Tarjuman al-Qur'an* 33, no. 6 (1950).pp. 340-360

<sup>81</sup> Rauf, *The Islamic Doctrine of Economics*.p. 146. Islamists assert that Islamic standards of consumption also mean abstaining from the goods and services that are prohibited in Islam.

Kahf tries to address this problem and differentiates between personal consumption and altruistic consumption. He suggests that the neo-classical concept of consumer rationality and utilitarianism would have to be adapted to the axiomatic system of Islamic economic philosophy and stretched to include non-economic gains such as spiritual reward and fulfilment as a consequence of altruistic consumption in the form of spending on charity and for the benefit of society. Islamic economic rationalism would consider the axiom of the Day of Judgement, which would lengthen the time horizon of a Muslim to incorporate the Hereafter when thinking in terms of his utility.<sup>82</sup>

Kahf emphasises that such rationality would affect the Islamic consumer in a way that would make him consider not only the immediate benefit of his action in the neo-classical utilitarian sense of the term, but will also induce him to practice moderation in his own consumption. He would behave as part of a brotherhood by being charitable to others, which would enhance his spiritual accomplishment and his life in the Hereafter, thus making him 'rich and successful' and consistent with the Islamic economic philosophical criteria.<sup>83</sup> According to Kahf, examples of this form of consumption would be giving to the poor and needy, spending for the welfare of future generations, and investing in areas that would enhance communal life even though they generate no significant profit. According to him altruistic consumption would bring more resources (human and material) into circulation in the economy, leading to a more economically just and welfare-oriented society.<sup>84</sup>

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<sup>82</sup> Kahf, "A Contribution to the Theory of Consumer Behaviour in an Islamic Society".p. 22

<sup>83</sup> Ibid.p. 23

<sup>84</sup> Ibid.p. 24



However, one needs to assess the possibility of altruistic consumption negating entrepreneurial incentives, when the fruit of an individual's business efforts might go towards the community at large. Additionally, it seems Kahf assumes that such an altruistic individual will be facing no material constraints in the course of his life that would force him to make judgements based on 'un-Islamic' ideals.

### *Fairness*

Islamists say that the Islamic producer would comply with the axiom of fairness, i.e. he would denounce concepts of profit and utility maximisation for his own self and aim for the maximisation of societal benefit instead. They state that the Islamic producer would undertake production in areas where it is spiritually gratifying i.e. aspiring towards the eradication of poverty, illiteracy, hunger and disease,<sup>85</sup> because his incentive would be to seek the approval and pleasure of *Allah*.

Chapra says that the Islamic producer would pay 'just wages' and charge 'fair prices'. He goes on to say that an employee is entitled to a 'just' wage for his contribution to output and it is unlawful for a Muslim employer to exploit his employee. In Islam, a 'just' wage is equal to the value of the contribution to output made by the labourer. So the question is how can wages be regulated? Islamic economists assert that there are *Ahadith* through which 'minimum' wages can be deduced. According to some *Ahadith* the 'minimum' wage

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<sup>85</sup> S. V. R. Nasr, "Towards a Philosophy of Islamic Economics," *The Muslim World* 77, no. 3-4 (1987).pp. 184-5

should be such that it enables an employee to obtain a 'sufficient quantity of food and clothing for himself and his family'.<sup>86</sup>

From the point of view of economic philosophy, not only is the concept of 'moderation' ambiguous, but also Islamists introduce terms such as 'just' and 'fair' which grapple with ways of quantification. What would be the threshold of 'moderation', 'just' and 'fair', which would allow a generally foreseeable operation of a firm? There could be several interpretations of 'moderation', 'just wages' and 'fair prices' deriving from several notions of justice prevalent in different sections of society. It would not be wrong to assume that the result of widely divergent moral convictions would give rise to uncertainty that could easily lead to economic chaos and unrest.<sup>87</sup>

Siddiqi adds to the list of 'just' and 'fair' when he proposes that the Islamic producer would be happy with 'satisfactory profits'. He asserts that the Islamic producer would not maximise his profits if he feels that by lowering his profit margins he can further the good of society, and also, he would not increase his profit at the cost of 'explicit injury' to the

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<sup>86</sup> Chapra, *The Economic System of Islam A Discussion of its Goals and Nature*. pp. 11-14. Mannan, *Islamic Economics: Theory and Practice*. pp. 115-117

<sup>87</sup> Notions of moderation, justice and fairness, which the Islamic economists claim to be peculiar to Islam have been part of the economic curriculum in Christian societies as well. The works of Thomas Aquinas, the Scholastic writers, and the torch bearers of Protestant economic thought such as Calvin and Luther reflect this. They understood the just wage to be a product of the morally accountable participants in free bargaining where employers and employees negotiated in the light of their mutual responsibility before God, and any type of bargaining that pushed the people below subsistence was clearly regarded as unjust. For a detailed discussion see R. S. Donald, "Adam Smith and the Natural Wage: Sympathy, Subsistence and Social Distance," *Review of Social Economy* 55, no. 3 (1997), E. S. Noell, "In Pursuit of the Just Wage: A Comparison of Reformation and Counter-Reformation Economic Thought," *Journal of the History of Economic Thought* 23, no. 4 (2001). Even classical economists such as Adam Smith were also concerned with moralistic concepts such as the 'natural price' where Smith's concept of the 'natural price' is in fact a descendant of the Scholastics' notion of a 'just price'. The 'natural wage' of labour meant to Smith much the same as the 'just wage' did to medieval thinkers, i.e. that society should be concerned when labour markets did not provide a subsistence that was 'plentiful'. Donald, "Adam Smith and the Natural Wage." p. 293. Additionally, the concept of just wage is also a matter of great concern to academics working in the neo-classical tradition of economics. M. Arnold, "What is Just Profit?," *Review of Social Economy* 47 (1989).

consumer.<sup>88</sup> His definition of 'satisfactory profits' relates to any profit in between two limits, where the upper limit is the legally binding Islamic code of conduct and the lower limit is that which affords the entrepreneur a decent living and a surplus to average out the losses that satisfies the entrepreneur.<sup>89</sup> This definition of satisfactory profits is purely subjective and unclear. This is because the parameters of the 'legally binding Islamic code of conduct' lack precision regarding the conditions under which it is applicable. Adhering to the concept of 'satisfactory profits' would prove difficult for the *homo Islamicus* as he will have to make sure that while pursuing 'satisfactory profit' he does not violate the Islamic code of justice and fairness. Also, it seems that due to the subjective nature of this definition, an Islamic producer will always be 'injuring' some part of the population if he adheres to the upper limit of the profit gain, leading to injustice for consumers with lower incomes.<sup>90</sup>

Siddiqi acknowledges that the concept of 'satisfactory profits' could mean that entrepreneurial actions would become unpredictable and non-uniform once the assumption of profit maximisation has been cast off and the notion of 'satisfactory profits' is introduced instead,<sup>91</sup> which in turn would create uncertainty in the investment scenario of an economy.

'Satisfactory profits' are supposed to grant the *homo Islamicus* a 'decent living'. However, among a spectrum of definitions of 'decent living' out of 'satisfactory profits', it is unclear which one the Islamic producer is to choose so as not to deprive himself or his family of their right claim to the fruits of their hard work and risk bearing in business, and at the

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<sup>88</sup> M. N. Siddiqi, *The Economic Enterprise in Islam* (Lahore: Islamic Publications Limited, 1972).p. 136

<sup>89</sup> Ibid. p. 107

<sup>90</sup> For a further discussion of the Islamic notion of economic justice, see Kuran, "Economic Justice in Contemporary Islamic Thought."

<sup>91</sup> Siddiqi, *Economic Enterprise in Islam*.pp. 137-141

same time be fair and just to his brethren in society. Notions of justice and fairness as described within the Islamic philosophy are hard to follow with precision in a complex and interwoven society when fairness or welfare for one individual might come at a detriment to the other.

Where fairness in production is concerned, Islamic economists say that fairness commands upholding the spirit of Islamic brotherhood by not indulging in rivalry and cut-throat competition, but producing via 'co-operation' with each other.<sup>92</sup> Islamists have defined the term generically and hold that co-operation implies production while considering common interests, i.e. producing what is best for society, and avoiding activities that are injurious to other producers and consumers. Justice with regard to the relations of production means 'co-operation', no cut-throat competition and avoiding injurious activities to other producers or consumers via 'constructive competition' aiming for the good of society.<sup>93</sup> Islamists believe that Islam's ideological axioms supply ample direction in all economic spheres.

There is no body of literature that states how the concept of competition is to be tamed via co-operation. Positive analysis at a microeconomic level about the nature of co-operation is still anticipated in Islamic economic literature. A preliminary study on the topic (which Kahf has made), suggests that co-operation is enforced via the supervisory and control functions of the Islamic state and that these functions have to be permanent fixtures in the market.<sup>94</sup> Interestingly, what this implies is that Kahf recognises enforcement problems and

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<sup>92</sup> Siddiqi, "Economics of Islam." pp. 22-33

<sup>93</sup> Ibid.p. 27

<sup>94</sup> See Kahf in Siddiqi, "Muslim Economic Thinking". p. 208

free riding by the altruistic *homo Islamicus* and seeks to rectify it via coercion from the Islamic state. (The topic of the role of the Islamic state has been discussed in detail in this chapter). Moreover, it would be interesting to see how the idea of 'co-operation' will translate itself into operation where millions of individual units are involved, knowledge is imperfect and communication involves costs.

Considering from the above paragraphs that terms such as 'just', 'fair' or 'satisfactory' connote far from obvious meanings as the productive techniques of one *homo Islamicus* might not be 'just' or 'fair' according to the perceptions of the other members of society (as he/she might be regarded as an individual who indulges in excesses).

Additionally, different Islamic governments might interpret Islamic norms differently. And if this is the case, there is no guarantee that such a scenario would not lead to the manipulation of interpretation of Islamic economic philosophy by self-serving Islamic authorities. This also implies that the lack of a uniform standard of justice and fairness might lead to confusion or arbitration among different Islamic countries regarding economic affairs.

So what does the above analysis state about the specific goals of the Islamic economic system? The following section tries to specify them by exploring the concepts of welfare, justice and equality.

#### **1.4 Goals of the Islamic Economic System**

The above-outlined Islamic economic philosophy has provided values to uphold to the aspirants of the Islamic economic system. It has shown that the Islamic economic system

strives for the welfare of society as a whole where all are to be accorded justice in a way that will lead to equality.

According to the Islamists, Islamic economics aims to provide scope for individual economic initiative (just as proponents of economic liberalism do), but without callous disregard for the evils of the market mechanism that polarises extreme poverty and wealth. The Islamic system presents itself as a 'third way', being situated between laissez faire Capitalism, and centralised Socialism or Communism.<sup>95</sup>

The classical writer Mawdudi holds that the aim of the Islamic economic system is to fulfil the basic needs of every individual by providing subsistence, social security in terms of food, shelter, education and medical aid.<sup>96</sup> Other writers such as Kahf (while not differing from the above point of view) add that the 'maximisation of the rate of utilisation of resources' is the first goal of economic policy in Islam along with the 'minimisation of the resource distribution gap via *zakat* and observance of the Islamic code of conduct by various economic agents'.<sup>97</sup> Chapra has a broader and more generic agenda for the system and gives priority to economic 'well-being', followed by 'justice', 'equitable' distribution of income, freedom of the individual and the creation of a Muslim universal brotherhood.<sup>98</sup>

Chapra says that *Falah* (welfare) in the Islamic economic system embodies satisfaction of both the material and spiritual needs of all human beings, where spiritual fulfilment is an integral part of the welfare of a human being. He claims that it is this factor of spiritual

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<sup>95</sup> Dr. H. Weiss, "Zakat, Poverty and Social Welfare- Islamic Economics and the Critique of the Secular State in Ghana and Nigeria (project plan)," in *Docent in African History* (University of Helsinki, 2001).p. 1 & 2

<sup>96</sup> A. Mawdudi, *Ma'ashiyat-e-Islam* (Lahore: Islamic Publications, 1969).p. 406

<sup>97</sup> See Kahf in Siddiqi, "Muslim Economic Thinking". p. 202

<sup>98</sup> Chapra, *The Economic System of Islam A Discussion of its Goals and Nature*.p. 5

need fulfilment that is lacking in the neo-classical concept of welfare, as it embodies only the concept of material welfare.<sup>99</sup> *Adl* (justice) is another vital goal in Islamic economics. It implies an equitable distribution of the resources, giving everybody their rightful share. This share need not, however, be equal to that of others as Islam recognises differences in human beings due to natural endowments (without, however, depriving anyone of his due).<sup>100</sup> According to Chapra, justice implies the opposite of *zulm* (injustice), which implies exploitation, inequality, wrongdoing to others and the failure to meet one's social obligations as a Muslim.<sup>101</sup> Justice also implies the need for redistribution of output to provide a just share of output for those who cannot obtain it through market forces. According to Kahf, this could be done via compulsory charity in Islam to be collected by the Islamic state.<sup>102</sup>

Naqvi, in his work on the relationship between Islam, economics and society asserts that the Islamic position on justice and welfare is closer to the Rawlsian Difference Principle because both judge the goodness of the state of affairs by reference to the welfare of the least privileged people in the society.<sup>103</sup> However, he asserts that the difference between Rawls' theory and the Islamic concept of equality is that Rawls does not provide a principle of equality, as he does not put limits on how much is being done for the well-off individuals in society. This is opposite to the Islamic perception of justice because the Islamic concept of equality aims to limit the disposable income of the rich by transferring an adequate amount to the poor. Additionally, Naqvi claims that Islamic notions of equality also aim to

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<sup>99</sup> Chapra, *Islam and the Economic Challenge*. footnote 3 p.11 and footnote 10 p.12

<sup>100</sup> Chapra, *The Economic System of Islam A Discussion of its Goals and Nature*. p. 16

<sup>101</sup> Chapra, *Islam and the Economic Challenge*.p. 209

<sup>102</sup> Kahf, "Methodology of Islamic Economics."p. 78

<sup>103</sup> Naqvi, *Islam, Economics and Society*. p. 31

reduce the number of people present in the poorest sectors of the society.<sup>104</sup> This indicates that the Islamic idea of equality not only aspires to create vertical equity but also to alleviate poverty.

The concepts of justice and welfare are the embodiment of the goal of equality in Islam. According to this embodiment the Islamic concept of equality seems a rather holistic concept. However, in Islamic literature, the stress on equality when it boils down to its implementation is primarily concerned with monetary aspects. The Islamic brand of equality implies that wealth should not be allowed to circulate among the rich only and should be spent to safeguard and elevate the economic position of those members of the society who suffer from economic backwardness.<sup>105</sup> It entails need fulfilment, a respectable source of living, supremacy of social gains over private ones and the absence of acute income inequality.<sup>106</sup>

According to mainstream secular literature, 'Equality is judged by comparing some particular aspect of a person (such as income, or wealth, or happiness, or liberty, or opportunity or right or need fulfilment) with the same aspect of another person.'<sup>107</sup> It can connote '*social equality*', i.e. equal status under the law, equal concern and respect.<sup>108</sup> It can also imply '*equal opportunity*' where all are given equal support and help, but thereafter inequalities are allowed to multiply as individuals make what they can of their

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<sup>104</sup> Ibid. p. 64

<sup>105</sup> M. M. Siddiqi, "Economic Teachings of the Qur'an in their Application to Modern Times," *Islamic Literature* (1968). pp 41-47

<sup>106</sup> Chapra, *Islam and the Economic Challenge*.pp. 210-11

<sup>107</sup> A. Sen, *Inequality Re-examined* (Cambridge, Massachusetts: Harvard University Press, 1997). p. 2

<sup>108</sup> R. E. Goodin, *The Real Worlds of Welfare Capitalism* (Cambridge: Cambridge University Press, 1999),p. 173



opportunities that are distributed according to merit.<sup>109</sup> Some others argue for equality of outcome i.e. after social policy interventions, differences between people in terms of their welfare should be less.<sup>110</sup> There are all these notions of equality represented by different schools of thought (Libertarians, Liberals, Rawlsians, Socialists and Marxists) that advocate a particular '*central social exercise*' for the prevalence of equality.<sup>111</sup>

Although the Islamic brand of equality is not entirely different from the secular definition, the latter's concepts of equality appear to be relatively more articulate and lucid in addition to being holistic, i.e. encompassing different monetary and non-monetary concepts of equality. The concept of equality in Islamic literature to begin with is concerned primarily with the functionality of income and wealth<sup>112</sup> and only then evolves to include non-monetary aspects of equality in terms of fairness and justice, which are again rather vague.

In an Islamic system consensus might be difficult to reach over a particular policy position, as the *Quran*, *Hadith* or *Sunnah* are vulnerable to myriad interpretations and policy positions. Consequently, equality may be approached as a relative ethical construct that leaves a wide margin of discretion for the policy makers.<sup>113</sup>

Does the Islamic concept of equality desire an equal distribution of income, or redistribution according to 'contribution' or 'need'? Chapra's assertions regarding the equitable distribution of income mentioned above mean that the Islamic economic system

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<sup>109</sup> J. Baldock, N. Manning, and S. Vickerstaff, *Social Policy* (Oxford: Oxford University Press, 2003).p. 75

<sup>110</sup> Ibid. p. 75

<sup>111</sup> Sen, *Inequality Re-examined*. p. vii

<sup>112</sup> Z. Hasan, "Distributional Equity in Islam," in *Distributive Justice and Need Fulfilment in an Islamic Economy*, ed. M Iqbal (Islamabad: International Institute of Islamic Economics, International Islamic University, 1986).p. 29

<sup>113</sup> Ibid. pp. 61-2

does not desire equal distribution of income but an equitable distribution as no two human beings are of the same disposition. (This thought involves keeping human diversity and heterogeneity under consideration, acknowledging that human beings are born with different endowments, characteristics and circumstances, and equality in one aspect does not automatically imply equality in others). Also, it seems that the Islamic economic system acknowledges that absolute equality would lead to the dampening of incentives for those who are naturally more able bodied than the others.<sup>114</sup>

It might be sufficient to say that the Islamic economic system advocates income distribution 'according to contribution', via its operational tools of profit and loss investment and abolition of interest. However, as mentioned above, the Islamists also stress income distribution according to 'need' as they acknowledge that the market mechanism cannot always provide for 'need' as there are those who cannot work for their upkeep. Need is defined as food, clothing, shelter, drinking water, fuel and electricity (depending on the climatic conditions). Medical care, education and basic Islamic instruction are also regarded as a basic need. Some writers have also included financial support necessary to get married as a need.<sup>115</sup> Islamists assert that the mechanism for achieving this goal is through the system of *zakat*, which can provide subsistence and correct market failure and supply social security.

From the above paragraphs it appears that there seems to exist an overarching idea of welfare and justice within which not only are the questions of poverty alleviation and

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<sup>114</sup> Chapra, *The Economic System of Islam A Discussion of its Goals and Nature*. p. 16

<sup>115</sup> M. N. Siddiqi, "Guarantee of a Minimum Level of Living in Islamic State," in *Distributive Justice and Need Fulfilment in an Islamic Economy*, ed. M. Iqbal (Islamabad: International Institute of Islamic Economics, International Islamic University, 1986).p. 259

income inequality reduction submerged, but there are also sub-questions – such as equality according to which criteria, of what and how much – the answers to which become an exercise in deductive reasoning through the Islamic economic literature. This vagueness regarding goals makes their achievability problematic.

It is important to examine the tools of the Islamic economic system that are supposed to realise the welfare goals of Islam. The Islamic economic system operates through the presence of the Islamic state, the operation of *modarabah* (profit and loss sharing), and the imposition of *zakat* in a *riba*-free (interest-free) economy. The next chapter undertakes this exercise.

## **Conclusion**

To create a framework within which the central question of this thesis can be contextualised, this chapter has aimed to explain the Islamic economic philosophy. The chapter was designed to provide an understanding of the nature of the Islamic economic thought (its theological and theoretical perspective) that would assist in comprehending *zakat's* nature and its underlying principles (*zakat* is analysed in the next chapter). The chapter elucidated upon various economic ideas such as fairness, justice, co-operation and moderation, and drew out and commented upon a range of policy implications. It revealed that these are far from definitive and therefore open to myriad interpretations.

The chapter also assessed the goals of the Islamic economic system and concluded that these involve the creation of welfare, justice and equality. What came across was that the Islamic system's goals to create welfare, justice and equality seems to embody mostly equilisation of income and wealth for poverty alleviation and reduction of income

inequality. But it is not clear how these goals are to be achieved i.e. redistribution to be achieved according to which principle and how much?

The chapter revealed that the *Quran*, *Hadith* and *Sunnah* are exposed to various interpretations depending on the different schools of Islamic religious thought. This interpretative vulnerability not only poses a challenge to the policy makers in terms of striking an accord over a specific policy stance but also provides them with ample scope for discretion and manipulation. Consequently, this exposure to vagueness regarding how goals are to be achieved adds to the challenge of their realisation.

This chapter sets the backdrop to reveal how these vulnerabilities can affect *zakat*. The above assessment undertaken will show in the following chapters how *zakat* when implemented could be subject to many different interpretations within different schools of Islamic thought considering the lucidity in *Shariah's* interpretation. How this vagueness leads to various versions of *zakat's* execution and operation theoretically and empirically, which could consequently make it vulnerable to exploitation. How it can prevent *zakat* from achieving its redistributive goals and frustrate its objectives of poverty alleviation and equality.

## Chapter Two

### Tools of the Islamic Economic System and the Political Economy of Islamic Welfare Policy

#### Introduction

The last chapter laid down the premise of the Islamic economic system and explained its origins, its philosophy, and the goals it wants to accomplish. This chapter aims to reveal how the Islamic economic system operates in pursuit of its goals of creating welfare and justice in society. Therefore this chapter extends the analyses of Chapter One and examines the tools of operation of the Islamic economic system: the presence of the Islamic state, the operation of *modarabah* (profit and loss sharing) in an economy without *riba* (interest), and the imposition of *zakat*. In particular, it aims to assess the assertions of the Islamists regarding the most important welfare instrument of the Islamic economic system, i.e. *zakat*.

Consequently, the purpose of this chapter is to challenge the Islamists' presupposition that when imposed as a governmental policy, the *zakat's* religious nature will lead to a positive outcome in terms of realising welfare and justice in society. The counter argument stresses that instruments of welfare, regardless of their ideological origin and nature, do not function in a political vacuum and are vulnerable to manipulation. Additionally, this chapter also considers the role of commitment in the effectiveness of a policy. It asserts that the Islamic state will have to create trust between itself and the individual by showing commitment to the *zakat* policy and that the *zakat's* divinely ordained nature will not guarantee automatic compliance.

The outcome of these analyses will lead to the enquiry of how the *zakat*, when operationalised as a welfare system within an Islamic welfare state, performs on the ground? This investigation will be the focus of subsequent chapters in the context of Pakistan.

This chapter is divided into two sections. Section 2.1 analyses key operational tools of the Islamic economic system, such as the Islamic state, *modarabah*, the *riba*-free economy and the *zakat*. It aims to reveal the extent of their benevolent nature. Section 2.2 firstly endeavours to delve into the political economy of Islamic social welfare policy by examining the policy making process in an Islamic polity. Secondly, the section also considers the challenges posed by the imposition of and the operational stage of the policy and examines the importance of the establishment of trust between the state and the individual via the state's commitment to the policy.

## **2.1 The tools of the Islamic Welfare System**

### **Islamic State**

In Islamic economic literature, the market mechanism is not regarded highly as a form of resource allocation and income distribution in society. Islamic economists hold that in Islam there are two grounds for entitlement to income: work and need. They say that the market may reward work, but it certainly does not provide for need. All Islamic economists uphold that the Islamic state should step in to rectify this market problem and modify glaring income disparities, by distributing income in conformity with the Islamic ideals of distributive justice and providing need fulfilment for every individual.<sup>116</sup>

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<sup>116</sup> Chapra, "The Islamic Welfare State and its role in the Economy", p. 150

Islamic economists hold that the creation of the secular welfare state was initiated by the capitalist class to guarantee the social order without a transfer of essential power from the upper echelons of the society to the lower strata.<sup>117</sup> In other words, it was created to ease the discontent of the labouring masses without any true fervour for social justice and fairness. They say that opposed to this, the rationale of welfare and justice is embedded in Islamic economic philosophy, which strives for the advancement of all humankind, and that the Islamic state, which is a welfare state, is a tool for its realisation.

Most Islamists, classical and modern, concur on the point that the history of Islamic economic thought has always stressed the presence of spiritual, religious and even political authority in the form of Imams or Caliphs over the entire Muslim people. Mawardi in the eleventh century, Shah Wali Ullah in the seventeenth and Mawdudi in the twentieth century felt that a value-oriented authority in the form of an Islamic state is needed to realise the Islamic goals of economic justice and the material and spiritual welfare of the people preached by the Islamic philosophy.<sup>118</sup> Modern writers such as Chapra also agree that the philosophy of the Islamic system has to be realised via an Islamic state, which would make Islamic economic policies conducive to economic justice and welfare.<sup>119</sup>

The following paragraphs outline some of the general economic and political functions that Islamists say the *Quran* prescribes for the Islamic state to realise its welfare objectives and targets. This exposition gives the reader an idea of the extent of economic and political power the Islamic state can exercise to achieve what it considers to be Islamically justified and thus good for the people.

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<sup>117</sup> Chapra, *Islam and the Economic Challenge*. p. 113

<sup>118</sup> Chapra, "The Islamic Welfare State and its role in the Economy". p. 143

<sup>119</sup> Siddiqi, "Muslim Economic Thinking". p. 210. See also Ahmad, "Public Finance in Islam",

In the economic milieu, one of the main duties of the Islamic state as directed by the *Shariah* is to eradicate poverty, provide fulfilment of all basic human needs, and full and efficient employment of human and material resources to attain an 'optimum' rate of economic growth and improve the standard of living of all people. Chapra points out that the use of the word 'optimum' is preferred to 'maximum' to allow for harmony with the goals of spiritual uplift and social welfare. The Islamic state would create conditions that would avoid situations generating excess demand and leading to unemployment and inflation.<sup>120</sup>

For the growth, development and prosperity of the economy, the Islamic state will undertake the construction of physical and social infrastructure. Additionally, instead of relying on the interaction of market forces for the allocation of resources and for the creation of aggregate demand, the state will play an active and conscious role in determining, guiding or channelling scarce resources for the general welfare of the *homo Islamicus* according to the dictates of the *Shariah*.<sup>121</sup>

Islamists affirm that the Islamic state will ensure social and economic justice in society by guaranteeing that everyone gets their due for their contribution to society and that there is no exploitation of one individual by another. For this purpose it would undertake the task of maintaining healthy conditions in the market by curbing cut-throat competition and preventing self-interested individuals from exploiting others. To achieve this end it will impose direct and indirect controls such as wage and price controls and investment

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<sup>120</sup> Chapra, "The Islamic Welfare State and its role in the Economy".p. 12

<sup>121</sup> Ibid.pp. 12-13



regulations, which would ensure need fulfilment for each member of the society.<sup>122</sup> Additionally, the Islamic state is also authorised by the *Shariah* to tax the entire surplus wealth, to use coercion in purchase or hire, to nationalise private enterprise and also to have the power to impose a ceiling on property ownership.<sup>123</sup>

Some critics have drawn parallels between the Islamic state and the interventionist state by arguing that the Islamic state's objectives to control market forces through central planning makes it no different to an interventionist state.<sup>124</sup>

Much like the Western welfare state, the Islamists also see an active role for the Islamic state where the provision of social security is concerned. The Islamic state will undertake this function by providing unemployment benefits, old age pensions, and assistance to those with disabilities (physical or mental handicaps). It will take up social assistance activities of guaranteeing minimum income in cash or kind via transfer payments of *zakat*. (There is contention on this point of the right of the Islamic state to collect *zakat*, which will be addressed below in the section on *zakat*). Finally, the Islamic state will provide law and

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<sup>122</sup> Ibid.p. 149

<sup>123</sup> Siddiqi, "Muslim Economic Thinking". p. 20

<sup>124</sup> An interventionist state's policies to control the magnitude of production and fix prices give rise to an imbalanced market where privately owned enterprises are at a disadvantage. Not only does such a system of governance inhibit a healthy competitive environment, but also tends to disturb the selling price and cost of production and thus hampering the normal supply and demand principle. All these interventionist rules render the market vulnerable to politicisation, and thence to further instability. Besides damaging the economy by creating politically manoeuvred economic structures, one of the strongest arguments supporting its criticism is the breakdown of the society's moral infrastructure. The ills of a centrally controlled market actually corrupt other institutions, making corruption and bribery the benchmarks of survival in a politically, economically and socially dysfunctional society. For a detailed critique of intervention, see L. von Mises, *Critique of Interventionism* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1996).

order for all its inhabitants and improve international relations with other countries and build up its national defensive capabilities.<sup>125</sup>

However, the Islamic state is not akin to the Western secular state. This is because the circumstances under which the two states undertake their duties are quite distinct, which sets them intrinsically apart. Whereas the modern secular state, apart from providing social security, defence and maintaining law and order in the country, would interfere in the market mechanism only when markets fail, the Islamic state would be an omnipresent entity in the economy. Whereas the secular state's nature is not pervasive, the Islamic state would be the paternalistic and benevolent state sanctioned by *Allah* to be His trustee and discharge its duty in accordance with the command of the *Shariah* to realise the purpose of the Islamic economic system of establishing a just society. As mentioned earlier, such an attitude of the Islamic state will be apparent in the form of fixing of prices, wages, rents and rates of profit.

A fundamental way in which the Islamic welfare state also differs from the secular welfare state is the Islamic state's stance on property rights. Whereas the secular welfare state upholds individual property rights, there is scarce disagreement among Islamists that the ownership of property belongs to *Allah* under the Islamic state.<sup>126</sup> *Allah's* ultimate ownership is a source of ambiguity in property rights in Islam, as *Allah's* ownership implies that His ownership supersedes the right of the individual to property. This implies that an Islamic state, which is representing the will of *Allah* and is a trustee of His resources, may impose limits on individual property rights if it feels that the individual property rights are

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<sup>125</sup> Chapra, "The Islamic Welfare State and its role in the Economy". p. 150

<sup>126</sup> Siddiqi, "Muslim Economic Thinking". p. 7

interfering with the will of *Allah* in an Islamic society. The Islamic state will be the judge and the abrogator of individual property rights. The Islamic state may limit the use of property or confiscate it if the fiduciary principle is violated.<sup>127</sup>

There are other characteristics of the Islamic welfare state that set it far apart from the secular welfare state. Baqir al-Sadr, another Islamic economist and a great advocate of a dominant Islamic state, points to an additional feature and asserts that it has the authority to undertake fresh legislation to regulate and guide social life, including economic affairs left unregulated by the *Shariah*. Whereas the Islamic state cannot legalise something that is prohibited in the *Shariah* or it cannot prohibit what the *Shariah* deems fit for an individual to do, it can surely issue a fresh list of dos and don'ts.<sup>128</sup> This point implies that in those areas on which the *Shariah's* stand is undetermined, the state can easily manipulate clauses regarding those areas and reshape them to fulfil its own political ambition. The immense political power bestowed upon the machinery of the state can make the Islamic state authoritarian and dictatorial with vast possibilities to steer policies and affect their operation to suit its own agenda.

Some other differences that set the Islamic welfare state apart from the Western welfare state might be of a non-economic nature, but these can have direct economic implications. The differences come in the form of the Islamic state's intrusion into the lives of individuals by enforcing Islamic values such as compulsory prayer and fasting at work.<sup>129</sup> To achieve this Islamisation of society, the state would venture to introduce Islamic-

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<sup>127</sup> S. Behdad, "Property Rights in Contemporary Islamic Economic Thought: A Critical Perspective," 47, no. 2 (1989).

<sup>128</sup> Siddiqi, "Muslim Economic Thinking". p. 209

<sup>129</sup> Chapra, "The Islamic Welfare State and its role in the Economy".p. 145

oriented policies such as Islamising the educational system, but if education were not enough it would resort to coercion. Islamists insist that the Islamic state cannot be a passive observer of the ethical norms in the country and thus it would levy penalties for violations of Islamic teachings and policies.<sup>130</sup>

It is clear that the Islamic state has substantive interventionist powers. Islamic economists concur with the view that in order to bring about a just, fair and equitable society, there has to be a dominating agenda for state intervention not only in the economic milieu of the society but also in the personal realm to make it conducive for the operation and success of its Islamic policies.

One would expect that with *homo Islamicus's* altruistic behaviour based on Islamic economic philosophy (as outlined in the previous chapter), the Islamic state would have a peripheral role in the working of the economy, but as one observes, this is not the case. The Islamic state's aspirations to impose 'just wages' and 'fair prices', to combat the inhumane interaction of market forces, to enforce 'co-operation' by taming unruly competition among individuals, seem redundant if *homo Islamicus* is the individual operating in the market. Islamic economists such as Kahf and Chapra, who initially hailed the role of the market mechanism in the economy with minimal state intervention, have increasingly proposed a strong case for state intervention in their later writings.<sup>131</sup> They began by supporting a minimum role for the state as they came from the neo-classical economic tradition, but soon afterwards, when they aspired to theorise Islamic economic philosophy with all its moral connotations, they embarked on prescribing an extensive list of governmental duties

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<sup>130</sup> Ahmad, "Public Finance in Islam", p. 5

<sup>131</sup> Kuran, "The Economic System in Contemporary Islamic Thought: A Critical Interpretation." p. 16

to curb all sorts of problems, such as free riding by *homo Islamicus* and the possibility of conflict due to the un-definitive nature of Islamic economic morals.

It is a matter of concern to see the extent of authority the Islamic state would be willing to exert as a trustee from *Allah* with the desire to act in accordance with the dictates of the *Shariah* (depending on the interpretation, as there can be myriad) to meet its objectives of creating a just society. The Islamic state has similar pervasive autonomy in the political realm and the rationale behind it is once again to promote people's welfare. It is important to explicate the political nature of the Islamic state as this has important economic implications and thus repercussions for policy formation within the Islamic economic system.

#### *Islamic Political Authority*

The term used in Islam for government or political authority is '*Khilafat*' or '*Caliphate*,' which means vicegerency. A '*Caliph*' is considered to be *Allah's* deputy exercising delegated powers. Thus the Islamists insist on using the word '*Vicegerent*' instead of '*Ruler*', '*Monarch*' or '*Sovereign*' for Islamic governance.<sup>132</sup>

Any mention of the Islamic state would be incomplete without the mention of Mawdudi. His ideas have been by far the most powerful and effective in the resurgence of the Islamic political thought that worked to create a revivalist sentiment for an Islamic state. Mawdudi's philosophy not only influenced the Muslims of South Asia, but many agree that

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<sup>132</sup> Chapra, *Islam and the Economic Challenge*.p. 202

Islamic revivalism in the Muslim world has evolved around his prolegomenon.<sup>133</sup> Many believe that a study of his vision of Islamic revolution and the Islamic state is essential for understanding the politicisation of Islamic thought in recent times.<sup>134</sup> Thus, the present exposition regarding the structure of the Islamic state's political power takes its origins from Mawdudi's political thought.<sup>135</sup>

Charles Adams, an expert on Mawdudi's philosophy, explains that his view of the Islamic polity rests on three fundamental principles. The first is the acceptance of *Allah's* sovereignty and the need to follow His word in the form of the *Shariah*. Secondly, the Islamic state is to accept the authority of the Prophet and follow in his footsteps according to his *Sunnah* or *Hadith*.<sup>136</sup> The third basic principle of the Islamic state is its status as the vicegerent of *Allah*. The key official in the Islamic state is its head or leader, called the *Imam*, *Caliph* or *Amir*. He has the major responsibility for the conduct of the state, and he is the real locus of power since he acts as the representative of *Allah* on earth on the one hand and representative of the Muslim people on the other.

Mawdudi coined the term '*theo-democracy*', which meant that the Islamic polity would be run like a theocracy by one man carrying the title of *Amir*. The *Amir* would rule only because the other vicegerents, i.e. the Muslim people, would delegate to him the authority

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<sup>133</sup> S. V. R. Nasr, "Mawdudi and the Jama'at-I islami: The Origins, Theory and Practice of Islamic Revivalism," in *Pioneers of Islamic Revival*, ed. A. Rahnama (New Jersey: Zed Books Limited, 1994), p. 98

<sup>134</sup> *Ibid.* p. 98

<sup>135</sup> There are other revivalists, such as Hasan Al Banna (1906-49) and Sayyid Qutb (1906-66), who have the similar stance on Islamic political ideology. They all adhere to a pyramidal structure of polity in an Islamic society and promote an authoritarian and a puritan system in the society aspiring to the times of the four Pious Caliphs. (The four Pious Caliphs were Abu Bakr, Umer, Usman and Ali who succeeded the Caliphate immediately after the death of the Prophet). Then there are the reformists, such as Mohammad Iqbal and Ali Shariati, whose philosophies have not found sincere followers to promote their ideologies.

<sup>136</sup> C. J. Adams, "Mawdudi and the Islamic State," in *Voices of Resurgent Islam*, ed. J. Esposito (New York: Oxford University Press, 1983), pp. 115-6

to govern.<sup>137</sup> The *Amir* can be elected, appointed or selected by the *Ummah* (Muslim people). Mawdudi did not explicate the method of this election, appointment or selection.<sup>138</sup> However, one of the main requirements for holding Islamic office is that the choice of the head of state shall depend on the general will of the people with no one having the right to impose himself by force as ruler.<sup>139</sup>

The *Amir* should rule via a consultative body, formally called the *majlis-e-shura*, which consists of the representatives of the Muslim people and should theoretically have the full support of the masses. Thus the *majlis-e-shura* should have representation from all ethnic clans and societal classes.<sup>140</sup> The *shura* can also appoint the *Amir* of the state. The Islamic state must conduct its affairs by mutual consultation with the *shura*. With regard to the formation of *shura*, Mawdudi does not prescribe any particular guidelines; he says that Islam does not prescribe the institutional form in which consultation must occur, thus leaving it to the community to devise the best and fairest means as may suit the conditions of a particular place and time.<sup>141</sup> In addition to the *shura's* role as a consultative body for the *Amir* it also acts as a legislature. This legislative function ensures and oversees that the laws in the country conform to the requirements of the *Shariah*. The *shura* is to spell out what has been left understated in the Islamic law. It appears that this body is to possess the total legal wisdom of the entire community and have intricate knowledge of the *Shariah*.<sup>142</sup>

According to Mawdudi, the *shura* will be at the disposal of the *Amir* for him to consult, but its advice is not binding on him. The consequence of such a situation would be that

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<sup>137</sup> Ibid. p. 116

<sup>138</sup> S. Mahmood, *The Concept of an Islamic State* (Lahore: Progressive Publishers, 1989).pp. 51-52

<sup>139</sup> Ibid. p. 46

<sup>140</sup> Chapra, *Islam and the Economic Challenge*.p. 243

<sup>141</sup> Ahmad, ed., *Islamic Law and Constitution*.p. 281

<sup>142</sup> Mahmood, *Concept of an Islamic State*.p. 51

complete power would remain with the *Amir*, who may disregard the legislature's opinion. It is important to note that where the *Shariah's* position is indeterminate the Islamic state can effortlessly manoeuvre clauses and remodel them to accomplish its own political ambition. Mawdudi's vision of the Islamic state contains no political parties and no provision for opposition. According to him there would be no reason for elections at regular intervals or for a change of administration as the Islamic state's policies would be calculated to meet the real needs of the population and to keep it satisfied.<sup>143</sup>

Keeping the above stance in mind, some authors have labelled the Islamic state 'totalitarian'.<sup>144</sup> The *Amir* could easily assume the role of a dictator who would seek political alliances to strengthen his rule and thus transform the rationale of the 'Islamic vicegerent state'. It would become easy for the state apparatus to tamper with any institution to secure its own economic and political interests. The God-sent *Amir* or *Khalifah* with his consultative body would meet with little opposition to shape and manipulate policies. Additionally, considering that the Islamic norms and injunctions, as noted earlier, are unclear, the state could take advantage of this lack of clarity to satisfy its own vested interests. Therefore, it would not be surprising if the Islamic ruler and his advisory body were to interpret the *Shariah* to serve their own objectives.

One could argue that it is not inevitable that the Islamic state would assume a totalitarian and a dictatorial nature due to the powers vested in the *Amir*, because the *Amir* might be of a democratic disposition. However, this does not remove the internal vulnerabilities of the

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<sup>143</sup> B. P. Barua, "The Political Authority of Maulana Mawdudi," *The Indian Political Science Review* 16, no. 2 (1982).

<sup>144</sup> Ibid. Adams, "Mawdudi and the Islamic State." Mawdudi also mentions the judiciary as one of the fundamentals of the Islamic state, but explains nothing about its nature, power or function.



Islamic political system as potentially the Islamic state operates under few checks and balances, unlike a parliamentary democracy. Parliamentary democracy functions under various branches of the government such as the executive, legislature (bi-cameral), judiciary, and a well-defined electoral system that is responsive to popular vote. In the absence of such a multi-polar axis of power, much of the Islamic polity's manifestation of its democratic disposition depends on the whims of a single *Amir*.

### *Riba (Interest)*

Islamic economists say that lack of *riba* in an economy would ensure fairness for individuals in a society and would guarantee economic justice and welfare for all. The presence of *riba* is seen as a tool for transferring wealth from the poor to the rich, because it is held to be exploitative, to increase income differentials and thus to work against the Islamic ideals of economic justice. Islamic economists hold that Islam bans interest on all types of loan, be it a consumption or investment loan.<sup>145</sup> According to them, the lender of consumption loans should not earn any return on his money, and in the instance of loans for production, the lender and the investor have to share profits and losses in the venture according to a predetermined formula. They hold that in this way, the lack of interest would lead to a more equal distribution of wealth and would be conducive to the growth of welfare in society.<sup>146</sup>

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<sup>145</sup> However, according to some writers, the prohibition of interest is limited only to interest on consumption loans and not on loans for production, because the former constitutes exploitation of the poor. The latter is an investment co-operation between the lender and the borrower where the lender is a weaker and vulnerable party and profit and loss sharing is allowed. But the traditionalists argue that it is interest on production loans that might be disallowed due to its historical significance in Mecca at the time of the Prophet. Al-Araby, "Contemporary Bank Transactions and Islam's Views Thereon," *Islamic Thought* 11, no. 3,4 (1967).

<sup>146</sup> Chapra, *Towards a Just Monetary System: A Discussion of Money, Banking and Monetary Policy in the Light of Islamic Teachings*, pp. 62-64

According to the Islamists, the principle of fairness requires that the supplier of capital for investment has to incur profits and losses that depend on the risk level of the project and the work effort involved in it. The fusion of labour and capital is the only fair way of creating surplus, as the provider of capital should not obtain a fixed return regardless of the outcome of the borrower's business.<sup>147</sup> Islamists reckon that the Islamic economic ethic discourages Muslims from acquiring wealth that does not involve hard work on the part of the individual, and they claim that *riba* creates an idle class and robs society of the labour and enterprise of individuals.<sup>148</sup>

Kuran criticises the above stance and argues that when Islamic economists claim that interest creates an idle class that does not invest its money in entrepreneurial activities and obtains returns on its money without any risk, they perhaps forget that not all individuals in a society are either capable or in a position to take financial risks, particularly low-income groups or the elderly. By bearing all the risk, the financial institutions can pay these individuals a set return that will keep the money of these people intact and therefore protect the savings of those on low incomes from being swallowed by the vulnerability to profit and loss sharing. Perhaps one can state that under such circumstances the absence of *riba* can actually increase income differentials in society and thus prevent the attainment of a just and equitable outcome.<sup>149</sup>

Furthermore, Islamic economists ignore the issue of inflation. Kuran asks whether under conditions of inflation the borrower of a consumption loan is obliged to compensate the

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<sup>147</sup> L. R. Presley and J. G. Sessions, "Islamic Economics: The Emergence of a New Paradigm," *The Economic Journal* (1994), p. 586

<sup>148</sup> Kuran, "Islamic Economics and the Islamic Subeconomy." p. 157

<sup>149</sup> Ibid.

lender for changes in purchasing power.<sup>150</sup> Non-compensation would go against the axiom of justice held central to the Islamic economic system. Additionally, if individuals were not compensated for inflation, they would be more likely to invest in non-financial assets such as gold or real estate, which might protect them against inflation but on the other hand would result in a reduction in the pool of resources available for investment. It is not difficult to see the negative consequence this scenario could have on the long-term welfare of the people.

### **Modarabah (Profit and Loss Sharing)**<sup>151</sup>

*Riba* in Islamic economics is to be replaced by *modarabah* or *Qirad*. *Modarabah* is described by Islamic economists as a sort of partnership between the owner of monetary assets, i.e. the lender and the entrepreneur or businessman i.e. the borrower. A businessman who has no monetary assets for his project may enter into a partnership with the owner of monetary assets in which the latter provides his money or funds for investment while the former manages the project and is the working partner. This partnership would not be on the basis of definite income return, as in the case of interest, but on the basis of sharing the profits and losses of the investment. The profits incurred in such a partnership would be distributed in a predetermined ratio. It is a limited liability investment arrangement as the lender only suffers loss to the extent of that which he/she has invested.<sup>152</sup>

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<sup>150</sup> Kuran, "Economic Justice in Contemporary Islamic Thought."p. 58

<sup>151</sup> Chapra, *Towards a Just Monetary System: A Discussion of Money, Banking and Monetary Policy in the Light of Islamic Teachings*.p. 248-251. There is another method for investment in an Islamic economy akin to *modarabah* and also seen as an alternative to interest called *musharakah*. *Musharakah* is more similar to the secular concept of a partnership, where everybody contributes financially, reserves the right of decision-making and all partners share the profit according to a specific ratio. The liability of the partners is normally unlimited. If the liabilities of a business exceed its assets and the business goes into liquidation, all the exceeding liabilities shall be borne pro rata by all partners. But if the partners agree that no partner shall incur any debt during the course of business, then the exceeding liabilities shall be borne solely by that partner who has incurred a debt on the business in violation of the aforesaid condition.

<sup>152</sup> Kahf, "Methodology of Islamic Economics."p. 79

The way in which *modarabah* differs from the profit and loss sharing implicit in the structure of the joint-stock corporation (where the supplier of the capital [shareholder] receives a dividend and experiences a capital appreciation or loss contingent on the performance of the company), is that the lender in the *modarabah* mode of finance does not have any power regarding the running of the business, whereas the holder of equity can vote at the general meetings of the company. In this way a *modarabah* partnership differs from profit and loss sharing with regard to equity. However, *modarabah* is more akin to the mode of operation similar to a corporate bond, as holders of corporate debt do not have any decision-making power in the corporation.

Islamists insist that although the lender does not participate in the daily decision-making in *modarabah*, he has direct interest in the activity of the firm, whereas, they assert, all the concerns of an interest-earner lie in his income, which does not depend in any way on the degree of efficiency with which his capital is used. Islamists hold that in allocating finance between different projects the lender in an Islamic society would be interested in the most efficient and most qualified entrepreneur, as well as the most profitable projects. They assert that the goal of a lender in Islamic economics is consistent with the goal of an entrepreneur, while there is no internal consistency between the objectives of the interest-earner and that of the entrepreneur in a secular society.<sup>153</sup>

This sentiment of the Islamists seems suspect, because an interest earner (e.g. holder of a corporate bond) like the lender in *modarabah* has a general desire for the borrower/entrepreneur to be successful, so that he/she can be redeemed. Similarly, if one considers

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<sup>153</sup> Ibid. p. 79

the structure of the joint stock corporation, the desire to influence the firm's investment decisions will be exercised by the dividend receiver with the help of his/her voting power at the corporation's general meetings.

Kuran makes a point in which he shows interest to have some advantage over *modarabah*. According to him, by fixing the obligation of the borrower, interest removes his opportunistic behaviour. Such behaviour might be present in circumstances of profit and loss sharing due to informational asymmetries between the lender and the borrower. The borrower will have better knowledge of the revenue and cost structure of the venture, whereas the lender can only make rough calculations. Under this situation the borrower can understate his earnings and overstate his costs. Thus, it might be better for the lender to have a fixed return for his money in the form of interest.<sup>154</sup> Furthermore, the lenders might actually be reluctant to invest via *modarabah* in the presence of informational asymmetries and absence of a fixed return. As a consequence, even projects that are economically viable would not get any funding. Consequently, the levels of investment would be artificially constrained, and the overall rate of growth would be reduced.

### Zakat

The fourth tool for the realisation of welfare and justice in the Islamic economic system is *zakat*. *Zakat* literally means 'purification' and 'growth'. It is not only a tool for the working of the Islamic economic system, but is one of the fundamentals of Islam's belief structure and, consequently, is one of the most important religious duties in Islam. It is considered as the right of the poor people to the wealth of the rich.<sup>155</sup> It is to assure the basic necessities

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<sup>154</sup> Kuran, "The Economic System in Contemporary Islamic Thought: A Critical Interpretation." p. 32

<sup>155</sup> Z. Khan, *The Holy Quran* (London-Dublin: Curzon Press, 1981). 51: 19 and 70: 24 & 25

of life for those who cannot undertake gainful employment or otherwise deserve society's help and assistance.<sup>156</sup> Islamic economists hail *zakat* as a compulsory obligation in the redistribution scheme of Islamic economics that lays down the ground for the Islamic social security system.<sup>157</sup> It is levied on the net wealth of all Muslims, including minors and orphans who possess wealth above a certain exemption level.<sup>158</sup>

The wealth that is liable for *zakat* has to remain in the possession of an individual for the entire *zakat* year, i.e. for twelve months for *zakat* to be levied on it. The *zakat* year starts on the first of *Ramadan* and ends on the thirtieth of *Shaban AH* (After *Hijri*).<sup>159</sup> This means that if an individual has lost part of his wealth just before the first of *Ramadan* that amount of wealth will not be liable for *zakat*. Similarly, *zakat* will not be liable on the wealth of an individual that has been gained a few months prior to the first of *Ramadan*.<sup>160</sup> *Zakat* is independent of income, which may be positive or negative, as long as the net worth at the end of the *zakat* year is above the minimum exempted level (the minimum level will be dealt with later in this section). Also, its payment is obligatory on net worth and not on total wealth, i.e. *zakat* will not be levied on due debts that have been incurred during the year. Debts are counted for the levy of *zakat* only if they are recoverable.<sup>161</sup>

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<sup>156</sup> Siddiqi, "Muslim Economic Thinking". p. 181

<sup>157</sup> Justice Dr. Tanzil-ur-Rehman, "Introduction of Zakat in Pakistan", 1981, Council of Islamic Ideology, Islamabad p. 2

<sup>158</sup> Some jurists hold that the levy of *zakat* on the assets of minors and the insane depends on the types of assets they hold. Y. Al Qardawi, *Fiqh Al Zakat: A Comparative Study: The Rules, Regulations and Philosophy of Zakat in the Light of the Quran and Sunna*, trans. M. Kahf, vol. 1, *Islamic Economics Research Series* (Jeddah: Scientific Publishing Centre, 1999).pp. 38-39

<sup>159</sup> The Islamic calendar is based on the year Prophet Muhammad and his followers emigrated to Madina from Mecca in the year 622 AD. Thus it is called Hijri, which means emigration in Arabic. The Islamic calendar is lunar and each month begins with the evening when the new moon is sighted. It is made up of twelve months when the New Year begins with the month of *Muharram* and ends with *Zil-Haj*. *Ramadan* is the ninth month of the Islamic calendar and *Shaban* is the eighth month of the Islamic calendar.

<sup>160</sup> Al Qardawi, *Fiqh Al Zakat: A Comparative Study: The Rules, Regulations and Philosophy of Zakat in the Light of the Quran and Sunna*.pp. 67-70

<sup>161</sup> A. Waheed, "Traditional and Recent Fiqh Rules and Economic Arguments Concerning Zakah Revenues" (paper presented at the International Training Seminar on Zakah Management, Islamabad, May 20-23 2002).p. 10

Islamists say that *zakat's* nature conforms to the generally accepted criterion of horizontal equity in which the *Shariah* treats all individuals equally, as their criterion for considering two individuals as identical is that they possess wealth above the exemption level.<sup>162</sup> This concept seems questionable because considering the emphasis that the Islamic economic system places on justice and equality, it does not seem equitable to consider a person with 2000 and another with 20,000 to be similar in terms of the financial burden of *zakat* payment just because they are above the exempted level.

Islamists also believe that due to the religious nature of *zakat*, people would be more willing to pay it as *zakat* will bring the pleasure of Allah<sup>163</sup> and it will remove greed from the Islamic society. They insist that because the *zakat* rate is so low (as compared to the mostly heavy burden of income tax), the incentive to evade *zakat* will be very low.<sup>164</sup> Mannan also concurs with this point that the likelihood of evasion of *zakat* would not be a problem.<sup>165</sup> They assert further that the imposition of *zakat* would break the association between wealth and political power because of its redistributive scope, as power is seen to be a function of wealth.<sup>166</sup>

### *The levy of Zakat*

The *Quran* did not lay down the specifics of the extent and the scope of *zakat*, such as the items on which it is to be levied, but it was the *Sunnah* from which Islamic jurists derived specifications. *Zakat* covers all kinds of traditional forms of wealth such as: gold, silver,

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<sup>162</sup> M. A. Khan, "Public Finance in Islam," *Islamic Studies* 40, no. 2 (2001).p. 243

<sup>163</sup> Ibid.p. 240

<sup>164</sup> Ibid.p. 245

<sup>165</sup> Kuran, "The Economic System in Contemporary Islamic Thought: A Critical Interpretation."p. 21

<sup>166</sup> Siddiqi, "Muslim Economic Thinking". p. 252. See also Ahmad, "Public Finance in Islam", p. 20

jewellery, cattle, mineral resources, buried treasures that have been recovered and cereals.<sup>167</sup> It is not difficult to perceive that the classical scope of *zakat* is very narrow, as it does not take into items that are identified as wealth in modern times. This implies that if *zakat* were imposed in a poor country, it would hamper its redistributive objective due to its own constricted capacity. However, some Islamic economists perceive *zakat*'s classical coverage to be enough to generate equity.<sup>168</sup>

Acknowledging the limitations of the limited assets on which *zakat* is imposed, some Islamic economists such as Kahf suggest that coverage of *zakat* should be extended to new forms of wealth. He holds that if *zakat* is collected only from traditional forms of wealth, revenue generated from it will not be enough to provide poverty relief to the poor, let alone make them self-sufficient. However, there are jurists such as Awad who state that the sources of *zakat* are divinely fixed and cannot be changed. He argues that *zakat* revenues will not be insignificant and hence there is no need to change its coverage.<sup>169</sup>

The issue of *zakat* on modern wealth has been on the agenda of many Islamists for decades. For this purpose the Arab League held the first seminar on the issue of levying *zakat* on present-day assets in Damascus, in December 1962. A report was prepared by Shaikh Muhammad Abu Zahrah of the Faculty of the *Shariah* at the University of Cairo, and Shaikh Rahman Hassan of the Al-Azhar University, Egypt.<sup>170</sup> It entailed that profits of

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<sup>167</sup> For detailed analysis see Al Qardawi, *Fiqh Al Zakat: A Comparative Study: The Rules, Regulations and Philosophy of Zakat in the Light of the Quran and Sunna*. *Zakat* is levied on productive wealth, i.e. wealth with potential or actual productivity. Potential productivity denotes such wealth as gold, silver and money kept as savings and actual productivity denotes agricultural produce and money invested in trade or articles of trade. See A. A. H. Sadeq, "A Survey of the Institution of Zakat: Issues, Theories and Administration", 1994, Islamic Development Bank, Jeddah, Saudi Arabia p. 37

<sup>168</sup> M.A. Khan, "Public Finance in Islam." pp. 227-256

<sup>169</sup> Sadeq, "A Survey of the Institution of Zakat", p. 33

<sup>170</sup> Mannan, *Islamic Economics: Theory and Practice*.p. 257



professions and trades not known in the past would now be subject to *zakat*. The Damascus report dealt with the question of *zakat* levy with regards to bank notes and other forms of currency and bills of exchange, such as stocks, shares and bonds. It concluded that if these instruments were acquired for the purpose of trade then these would be dealt with as commodities subject to *zakat*. However, if the instruments were acquired for investment, then *zakat* would be payable on the profit or dividend obtained from the investment.<sup>171</sup>

Mannan recognises that the indiscriminate application of *zakat* on stocks, shares and bonds goes against the spirit of the *Shariah*. This is because the return on stocks and shares gives a dividend and it varies according to the investment environment of the market for that product, which is in accordance with the spirit of Islamic profit and loss sharing, whereas the return on bonds is more akin to earning interest and thus can be deemed as illicit under the *Shariah* principles.<sup>172</sup> The issue of *zakat* on modern forms of wealth is an area of discussion packed with controversies, opinions, arguments and counter arguments.<sup>173</sup>

#### *Rates of Zakat*

The rates of *zakat* stipulated from the *Quran* is that it be charged annually at a flat rate ranging between 2.5% to 20% (for mines and treasure troves its rate is 20%) on the total personal net worth of an individual's assets.<sup>174</sup> *Zakat* on agricultural produce, which is also called *ushr*, ranges between 5% and 10%. Its rate is 10% on the produce if the land is irrigated with rainwater or gravity flow water channels. If the land is irrigated by artificial

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<sup>171</sup> Ibid. p. 259

<sup>172</sup> Ibid.

<sup>173</sup> Siddiqi, "Muslim Economic Thinking". p. 212

<sup>174</sup> F. G. Zayaz, *Law and Philosophy of Zakat* (Syria: Al-Jadidah Printing Press, 1960).pp. 95-113

irrigation, then the liability of *ushr* is 5%.<sup>175</sup> Its rate on wealth in the form of gold and silver is 2.5%, and the same rate is applied to monetary assets and livestock.

Islamic economists argue that the proportional rate of *zakat* is better than a progressive rate, because a progressive rate of taxation not only has a negative impact on the economic incentive of an individual but also goes against the Islamic injunctions of justice and actually undermines general welfare.<sup>176</sup> An additional reason they give is that *zakat* is levied on net worth and not on income, and hence, its proportion to income is much larger than its literal ratio of 2.5%. They thus say that *zakat* would mobilise a large portion of wealth for redistribution.<sup>177</sup> However, it will be wrong to state that a proportional levy at a low fixed rate can be expected to play a major redistributive role in eliminating gross inequalities, especially where wealth is difficult to tap and the scope is narrow.

Though the rate of the *zakat* has its root in the *Sunnah*, it was not specified and has been inferred by Islamic scholars and jurists. Many Islamic economists recognize that the rates of *zakat* should be increased. Mannan stresses that if a sizeable amount of wealth is to be channelled from the rich to the poor then the rates of *zakat* will have to be revised.<sup>178</sup> Some others support this stance that if *zakat* is to be successful in its objective of poverty alleviation, its rates need to be reconsidered. They provide historical evidence to support their claim. They evoke the times of the pious Caliphs where it seems that *zakat* rates were changed according to the social and economic circumstances of the time.<sup>179</sup> They hold that

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<sup>175</sup> M.A. Khan, "Public Finance in Islam." pp. 227-256

<sup>176</sup> S. M. Yusuf, *Economic Justice in Islam* (Lahore: Chaudhry Mohammad Ashraf, 1971).p. 67

<sup>177</sup> Kahf, "Methodology of Islamic Economics."p. 79

<sup>178</sup> Mannan, *Islamic Economics: Theory and Practice*.p. 237

<sup>179</sup> A. A. Shaik, "Concept of Zakah: A Survey of Qur'anic Texts and their Explanation in Shari'ah and Contemporary Economics," in *Some Aspects of the Economic of Zakah*, ed. M. Raquibuzzaman (1980).p. 18-

contrary to what some Islamic jurists assert, *zakat* rates are not a divine injunction that cannot be changed. There are many Islamic jurists and economists who toe a rather puritan line and believe in retaining the originality of *zakat* law. Ahmed insists that the rates that have been inferred from the *Sunnah* hold true for all times and are immutable. He further adds that tampering with *zakat* rates of levy would lead to political manipulation of this form of prayer.<sup>180</sup>

### *Nisab*

The minimum amount of wealth liable to *zakat* is called *nisab*.<sup>181</sup> In the time of the Prophet *nisab* was generally defined as the minimum wealth required for the sustenance of a family for at least a year.<sup>182</sup> This level is also not clearly specified in the *Shariah* but is inferred from it. The *nisab* for silver is 595 grams and for gold is 88.65 grams (if the wealth of a person is in the form of gold only). For modern paper currency, *nisab* is pegged to either silver or gold.<sup>183</sup>

According to Kuran, these exemption limits stipulated by the Prophet probably reflected the relative prices of gold and silver that prevailed in his time.<sup>184</sup> In recent times, the price of gold has adjusted to a higher degree of inflation than silver. Therefore, some Islamic scholars have stressed the need to reconsider *nisab*. Kahf notes that relative prices of items liable for the levy of *zakat* have been changing over time: for example silver has

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28. The historical evidence that Shaik mentions is that the rate of *zakat* on a horse during the time of the Prophet was 2.5% of its value, but in the time of the Pious Caliphs it was doubled to 5% of its price.

<sup>180</sup> Z. Ahmed, "Comments on M. A. Manan's Effects of Zakah Assessment and Collection on the Redistribution of Income in Contemporary Muslim Countries," in *Management of Zakah in Modern Muslim Societies*, ed. I. A. Imtiaz (Jeddah: Islamic Development Bank, 1989), p. 55

<sup>181</sup> Zayaz, *Law and Philosophy of Zakat*, p. 3

<sup>182</sup> Al Qardawi, *Fiqh Al Zakat: A Comparative Study: The Rules, Regulations and Philosophy of Zakat in the Light of the Quran and Sunna*, p. 64

<sup>183</sup> A. M. Sadeq, *Economic Development in Islam* (Selangor Dar-ul-Ehsan: Pelanduk, 1990), p. 62

<sup>184</sup> For a general discussion see Kuran, "Islamic Redistribution Through Zakat: Medieval Roots of Contemporary Problems".

deteriorated in value relative to gold over the years, and the existing *nisab* of silver does not correspond to the present cost of living. What he suggests is some sort of a formula that examines the *nisab* of the items in the Prophetic traditions, their relative prices and weight, and the cost of living at that time and applying this formula to determine the *nisab* on items in the contemporary world.<sup>185</sup> Another Islamic economist, Raquibuzzaman, supports this view and adds that the *nisab* of *zakat* should be equivalent to the amount that is adequate to maintain a reasonable standard of living, and this should be changed from time to time to reflect the changes in the cost of living.<sup>186</sup> However, no progress has so far been made in developing this formula. The low level of the *nisab* especially relative to an annual poverty line income implies that if *zakat* is imposed in an Islamic country with its present exemption limits, redistribution via *zakat* would occur from the poor to the poor, and people who are eligible to receive *zakat* would also be paying it. This would be against the dictates of Islamic welfare, justice and equality.

#### Heads of *Zakat*

The *Shariah* permits *zakat* funds to be used only for specific purposes. According to verse 60, *Sura IX* of the *Quran*, the lawful beneficiaries of *zakat* are, firstly, the paupers. The pauper is he who has no living and is unable to earn a living. This category includes all Muslims whose means are, in spite of their best efforts or due to some physical disability, either totally lacking or are so deficient as to deny them the basic lawful material necessities of life. Secondly, there are the poor whose income is insufficient to cover expenses. Third are captives or slaves who need to be freed. Fourthly, *zakat* can be used to pay off the debts of the poor. This implies that all debtors who find themselves unable to

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<sup>185</sup> Sadeq, "A Survey of the Institution of Zakat", pp. 33-4

<sup>186</sup> Ibid.p. 35

repay their debts without suffering undue distress or destitution may seek relief from their burden through *zakat*. Fifthly, *zakat* can be used for its administrators, and sixthly, for the cause of Allah, which many agree implies giving *zakat* for lawful warfare for the defence of Islam and of the Muslim people and territories. The seventh category are those whose hearts are reconciled, i.e. converts to Islam. Receiving *zakat* is supposed to confirm them as Muslims and supposed to encourage and attract others in following them. Lastly, *zakat* can be used for the wayfarers. This means that *zakat* may be given to travel the land, which implies learning practical wisdom from the vast wealth of experience that travel alone affords. Among these categories, priority is given to the poor and the needy.<sup>187</sup>

*Zakat* disbursement can be made in cash or in kind. Disbursements in kind are encouraged as they are supposed to make the recipient self-sufficient in the long run.<sup>188</sup> One of *zakat*'s real challenges lies in the fact that the *Quran* does not state how *zakat* is to be divided among the eight classes of beneficiaries.<sup>189</sup> This has added to the trials of the Islamic scholars who, though they agree on the types of beneficiaries of *zakat*, do not seem to have solved the issue of percentage allocation of *zakat* among the categories mentioned above.

#### *Collection of Zakat and the role of the Islamic State*

The role of the Islamic state is an important but a controversial one in the working of *zakat*. Jurists and economists adhering to the *Hanafi* school of law, i.e. of the *Sunni* majority, agree on the point that the state ought to be responsible for the collection and disbursement

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<sup>187</sup> Al-Ghazzali, "Kitab Asrar al-Zakah," in *Ihya' Ulum al-Din* (Lahore: Sh. Mohammad Ashraf, 1966; reprint, 1980).pp. 56-63

<sup>188</sup> Maulana T. Usmani, "Questions and Answers on Zakah," *The Pakistan Accountant* 38, no. 4 (2005).

<sup>189</sup> Zayaz, *Law and Philosophy of Zakat*.p. 306

of *zakat*.<sup>190</sup> They say that their claim is supported by verse 9:103 in the *Quran*. However, the idea of state intervention in the *zakat* mechanism is contested by other *Sunni* minority Islamic jurists, who hold that *zakat* is not a tax imposed by the state, and thus, is not dependent on it for its function, which they say is confirmed by the *Quran* in verse 170, *sura VII*. The ambiguity is enhanced further by the historical fact that payment of *zakat* was a public duty in the time of the first Caliph, Abu Bakr, who waged war on those who evaded it. Consequently, the supporters of state intervention in the *zakat* mechanism assert that whenever payment of *zakat* or its distribution to the rightful beneficiaries was neglected, it has been the state's duty to intervene. However, in the time of the third Caliph Omer, the prospective *zakat* payers were spared from paying to the state, as corrupt collectors were a cause of annoyance for them.<sup>191</sup> It is not only the *Sunni* scholars who differ on this point, since *Shias* do not uphold the idea of state intervention with regard to payment of *zakat* either.<sup>192</sup>

The analysis of the Islamic state given earlier revealed that the Islamic state can enjoy undisputed economic and political leverage, and the role of the state in the *zakat* collection further highlights the grey area regarding *zakat's* various injunctions that make it rather vulnerable in the hands of the political authority.

### *Goals and Objectives of Zakat*

Proponents of the Islamic economic system claim that *zakat* is the cornerstone for the realisation of welfare and justice for all. They assert that the system of *zakat* is geared

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<sup>190</sup> Chapra, "The Islamic Welfare State and its role in the Economy".p. 161. See also Sadeq, *Economic Development in Islam*. And Mannan, *Islamic Economics: Theory and Practice*.

<sup>191</sup> Siddiqi, "Muslim Economic Thinking". p. 216

<sup>192</sup> Shi'as give *zakat* to a freely selected religious scholar, whom they consider as acting as the delegate of the Imam. Y. Richard, *Shi'ite Islam, Polity, Ideology and Creed* (Oxford: Blackwell, 1995).p. 146

towards advancing social justice and equity via the redistribution of wealth from the rich to the poor.

If *zakat* were imposed as a policy in a country, then what would be its explicit objective? Would it be for the welfare of the least privileged in society, reducing poverty, creating vertical equity or just need fulfilment? It is important to know which of the above objectives the state is pursuing since these apparently similar goals encompass significantly different meanings, and are assessed using different criteria.

Judging from the heads of *zakat* expenditure, it is easy to see that *zakat* has multiple aims. Islamists assert that *zakat* is to guarantee subsistence and need fulfilment for those who cannot undertake productive activities and thus are reliant on society's assistance. In addition, *zakat* not only strives to provide for the needy but also aspires to alleviate poverty.<sup>193</sup> Islamists also affirm that *zakat* has major potential for mobilising resources in favour of reducing income inequality.<sup>194</sup>

Many injunctions regarding *zakat* are ambiguous and sometimes contentious. Moreover, there is conflict as to which injunctions are alterable and which are not. All these contentions regarding the rate and scope of *zakat*, the *nisab* and the role of the Islamic state in the *zakat* mechanism have huge implications for the workability of *zakat* and its effectiveness in meeting its targets of welfare and equity. However, for the Islamists, regardless of these limitations, the supposed superiority of *zakat* due to its religious nature

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<sup>193</sup> M. T. Mansoori, "Objectives and Targets of Zakat in the Quran and Sunnah" (paper presented at the International Training Seminar on Zakat Management, Islamabad, May, 20-23 2002).pp. 5-10

<sup>194</sup> Siddiqi, "Muslim Economic Thinking".p. 251

has made it a jewel in the crown of Islamic public finance with major redistributive potential.

Islamists seemed to have overlooked the fact that all policies are created in a political environment and are political instruments, and hence suffer from several challenges that emanate out of the interplay of the two. Islamists appear to ignore the vulnerability of *zakat* to becoming an instrument of political bargaining. In addition, they do not seem to realise that *zakat* (although a form of prayer and a divine injunction) does not come in a political vacuum and is dependent on political structures not only for its initiation but also for its consequent operation, which leaves it vulnerable to manipulation from interest groups.

The following account examines the political economy of the formation of the Islamic welfare policy and assesses how a policy may be influenced and consequently shaped by the interest groups. This section also examines the importance of trust (regardless of the sanctity of Islamic institutions) between the state and the individual, created through the state's commitment to the policy.

## **2.2 Political Economy of Islamic Welfare Policy**

Social policy is intertwined with government and politics as it involves attempts to change current social arrangements in one way or another and therefore involves the exercise of power. Bringing about this change is never a straightforward process and always involves the ulterior motives of those involved in the process. The rationale of the policy and the real agenda of the state behind the official rhetoric can usually be laid bare by examining the policy-making process, and this holds true for the Islamic welfare policies as well.



One cannot examine the policy-making process divorced from the components of the state. Therefore, one needs to consider the apparatus of the state, including the bureaucrats, legislators, interest groups and the politicians.

The secularists who theorise about social policies in general (especially their social, economic and political dynamics) seem to be aware of the interplay of institutions and key groups through which a welfare policy emerges.<sup>195</sup> They also seem to be aware of the politics of welfare and the influence of politics on policies due to the various intricacies and proportions of power interaction.<sup>196</sup> They acknowledge the reality of a policy process as an experience relating to relationships between political phenomena.<sup>197</sup> The secular literature, divided into pluralist, corporatist, Marxist and the elitist categories, describes the trajectories of policy formation via different formulae of power play among various participating groups. These categorisations explicate various influences that operate in the process of policy formation.<sup>198</sup> The secular theorists hold that the policy-making process is a series of political activities with many dimensions involving identifying problems, setting the agenda, formulating policy proposals, legitimising policies and implementing them. Even the evaluation part of the policy process is ridden with political considerations.<sup>199</sup>

### **Policy Making in an Islamic Context**

Most Islamists seem to be unaware of the politics of policy formation, although the government structure that they envisage in an Islamic polity (as described earlier) has clear

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<sup>195</sup> C. Jones, *Patterns of Social Policy an Introduction to Comparative Analysis* (London: Tavistock Publications, 1985).p. 5

<sup>196</sup> L. N. Gerston, *Public Policymaking in a Democratic Society* (New York: M. E. Sharpe, 2002).p. 154

<sup>197</sup> R. Rose, "Comparing Public Policy: An Overview," *European Journal of Political Research* 1, no. 1 (1973).p. 74

<sup>198</sup> Baldock, Manning, and Vickerstaff, *Social Policy*.p. 43. For complete definitions of these categories, see pp. 43-44

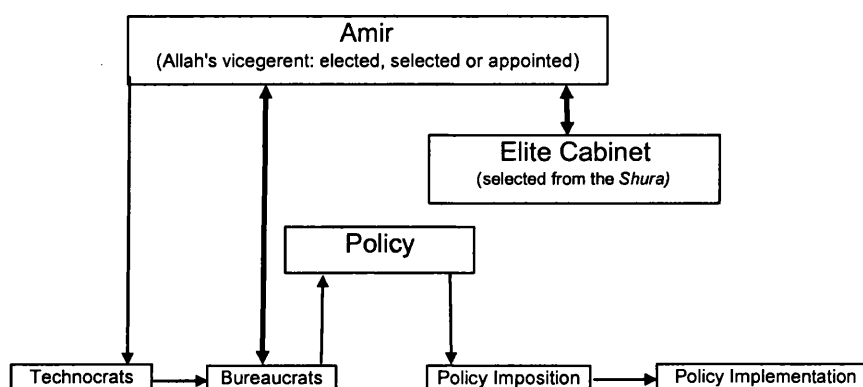
<sup>199</sup> T. R. Dye, *Understanding Public Policy* (Englewood Cliffs, NJ: Prentice-Hall, 1992),pp. 17-18 & 333

implications for policy formation, operation and evaluation. The politics of welfare that could emerge as a consequence of the Islamic mode of governance seems to have eluded the Islamists as they have apparently failed to consider the peculiarities of the exercise of power incumbent in their model. It seems that in the Islamists' minds there exists an underlying assumption that the Islamic ruling authority would have internalised the philosophy of the Islamic economic system and would operate for the collective good. There does not appear to be any internal critique of the possibility and consequently of the politics of welfare.

According to the economic and the political nature of the Islamic state described earlier, the question arises as to what is to be the policy-making process in an Islamic polity. In an Islamic state, the policy-making process would be based on a system of decision-making that would have only few individuals contributing to the decision-making process. The diagram below attempts to visualise the policy-making process in an Islamic polity.

**Figure 2.1**

**Policy Making in an Islamic Polity**



Source: Author

As seen from the figure above, the authority, i.e. the *Amir* takes the decision to enforce a policy. As explained earlier, it is important to point out that there is no specific prescription for the appointment of the *shura* as it can be elected, selected and appointed in any way. The *Amir* has his *shura* from which he chooses his elite cabinet. Between the *Amir* and his elite cabinet there is a strong two-way communication, which denotes not only consultation between them regarding the shape of the policy (which is represented by the bold lines in the diagram) but also denotes collaboration between them regarding mutual interests. Similarly there is a two-way communication between the *amir* and the bureaucrats, which again shows consultation of the practical sort. The *amir* commands the technocrats regarding policy formation, which is denoted by the one-way command communication. From here onwards one notices a flow of process akin to a policy-making process under any form of rule.

The above diagram indicates how the actors in an Islamic polity may influence the decision-making process of a policy and affect its shape. It reveals that the Islamic state can potentially manoeuvre the policy in a manner that could detract the policy from its objectives to retain and forward its own agenda and thus have a negative impact on its effectiveness. Under an ambience of such elitism, it would not be a problem for the god-sent *Amir* and his *shura* to fight off any opposition. Additionally, considering the myriad interpretations of the tenets of Islamic economic philosophy regarding justice and fairness, it will be in the power of the *amir* and his advisory body to interpret policies (based on the *Shariah*) to achieve their own political objectives and security.

The above analyses indicate the point that policies are not immune from vulnerability even if the political and economic system is based on divine injunctions. The altruism of the

welfare instrument does not blunt its political edge, as devices of welfare are fertile ground for winning political support and bargaining for power. As analysed earlier, the Islamists seem to proceed with the underlying notion that the Islamic political authority would have internalised the broader philosophy of the Islamic economic system and so will naturally be working for the collective good. They do not provide for situations of detraction. The challenge of a policy imposition does not end with policy formation, as the operation of policy is another challenge that the Islamic economic literature does not seem to have tackled. Here again the Islamists seem to underestimate the challenges posed by the operational stage of the policy process, as they seem to presuppose that the humanitarian and benevolent disposition of the policy is sufficient for individuals to turn into *homo Islamicus* and carry out their duties sincerely. Thus the Islamists seem to believe that there would be a smooth transfer of the Islamic economic philosophy into the world of real politik and economics through the tools of the Islamic economic system.

### **The Importance of Being Earnest and Generating Trust**

The fact that the policy is Islamic and imposed by the Islamic state is not enough for the individual to deem it acceptable. An individual will make his/her own calculations regarding the fairness of the policy process and the shape of the imposed policy. The Islamic state will have to assure the public that it is not operating to forward its own good but that it is working earnestly for the collective good. For this reason it will have to establish the element of trust between itself and the *homo Islamicus*.

The factor of trust between the individual and the state is of pivotal importance for a successful policy mechanism. Trust in the state by the individual strengthens the ideals, beliefs and the values that form the basis of success of any social policy imposed by a

government. Therefore, trust between the state and the individual helps the socialisation of the individual with the policy, which in turn facilitates co-operation with the state and compliance with the policy. The following analyses comment upon some of the ways in which the state can generate trust that would be beneficial for the success and effectiveness of a policy. Before elaborating upon the stated claim it is imperative to explain what is meant by *trust*.

Levi states that the act of *trust* is the knowledge or belief that the trusted will have an incentive to do what she/he/it engages to do.<sup>200</sup> Among many aspects of *trust* that Blackburn points out in his work, the one most suited for the present analyses is where he uses the tripartite relationship, i.e. X *trusts* Y to do Z, in a certain way, and with a certain motive.<sup>201</sup> The notion of trust can be applied to individuals or institutions such as the government.<sup>202</sup>

It is the level of *trust* between the individual and the state and its institutions that ensures a degree of compliance with governmental demands and regulations. Its absence can lead to widespread antagonism to governmental policies and even active resistance. It is trust that holds the individual, the state and the policy together in a workable relationship.<sup>203</sup> One can assert that societal actors would not respond positively to labels such as *homo Islamicus*, the Islamic state and *zakat* as these would not command allegiance automatically unless there are universal concepts and values, such as that of *trust*, underpinning their

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<sup>200</sup> M. Levi, "A State of Trust," in *Trust and Governance*, ed. V. Braithwaite, & Levi, M., *Russell Sage Foundation Series on Trust* (New York: Russell Sage Foundation, 1998).p. 78

<sup>201</sup> S. Blackburn, "Trust, Cooperation and Human Psychology," in *Trust and Governance*, ed. V. Braithwaite & M. Levi (New York: Russell Sage Foundation, 1998).p. 30.

<sup>202</sup> Levi, "Trust and Governance."p. 80. With regards to institutional trust, what is implied is the procedure for selecting and constraining the agents of institutions so that they are competent, credible, and likely to act in the interests of those being asked to trust the institutions.

<sup>203</sup> J. T. Scholz, "Trust, Taxes, and Compliance," in *Trust and Governance*, ed. V. Braithwaite, & Levi, M., *Russell Sage Foundation Series on Trust* (New York: Russell Sage Foundation, 1998).p. 136 Also see J. Edlund, "Trust in Government and Welfare Regimes: Attitudes to Redistribution and Financial Cheating in the USA and Norway," *European Journal of Political Research* 35, no. 3 (1999).

relationship that would strengthen and complement the interaction between them, leading to positive consequences for the assertions of the Islamists.<sup>204</sup>

The state can generate trust by showing commitment to the policy that it has imposed, as demonstrating commitment to the policy would consequently strengthen the individual's trust in the state. This implies that the state should take steps that would demonstrate to the public its sincerity towards the policy (especially if the policy in question has direct financial consequences for the people). The state can demonstrate commitment by making sure that the individual perceives the government as one that meets the prevailing standards of *fairness*, i.e. considers all relevant interests in the procedures of making and implementing welfare policies.<sup>205</sup> If the policy's introduction and decision-making process is perceived cynically by the public, the rationale of the policy will be received with suspicion. If the policy-making process suggests the state is being disingenuous then the policy could be undermined, as the public's perceptions will also be negative. In most cases citizens are willing to go along with a policy they do not prefer as long as it is made according to a process they deem legitimate, as they are less willing to co-operate with a policy they agree with if the process was problematic.<sup>206</sup>

The perception of the individual should be that the policy is legitimate and created for his/her benefit. Historically, these procedures have ensured that citizens, who quasi-

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<sup>204</sup> There are debates regarding the governance methods of the state, which has consequences for the creation or destruction of communal, familial, or generalised trust among the individuals see F. Fukuyama, *Trust* (New York: Basic Books, 1995). However, this thesis deals with ideas that relate to the relationship of the individual with the state, which holds that state actions directly influence its relationship with the individual in the form of increased or decreased trust, which then in turn facilitates or impedes the economic, political and social progress in the society.

<sup>205</sup> Levi, "Trust and Governance." pp. 90-92

<sup>206</sup> B. Barry, *Justice as Impartiality*, ed. D. & Ryan Miller, A., vol. II, *Oxford Political Theory A treatise on Social Justice* (Oxford: Clarendon Press, 1995).p. 111

voluntarily pay taxes, generally credit governments with doing the right thing with their monies.<sup>207</sup>

The state can signal its commitment and *fairness* through the coercion of those who are not obedient, i.e. by punishing lawbreakers and establishing credible courts. Scholz argues that enforcement is necessary and that the agency (or the state) should form a basis for trust by ensuring that it conveys the message that untrustworthy citizens will be made to comply with the law via statutes and punishments that would prevent the erosion of public confidence in the agency.<sup>208</sup> Thus the enforcement factor of the policy also strengthens the commitment and fairness nexus with the state, which leads to increasing compliance. Enforcement includes certainty, severity of punishment and extent of monitoring.<sup>209</sup> Individuals will comply with policies if they fear punishment in case of non-compliance, as punishment of the most flagrant violators serves as an example to those considering non-compliance.

Commitment can also be conveyed via the public perception that the policy involves the standardisation of the provision of services. It is suggested in the literature that discriminatory practices and violations of policy promises are likely to provoke non-cooperation from the citizens. Also, the state on its part should make sure that the citizen realises that the recruitment and promotion of state bureaucrats has taken place on grounds of competence as the implementation of policy is handled by the state bureaucracy.

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<sup>207</sup> Levi, "Trust and Governance." p. 90

<sup>208</sup> J. T. Scholz, "Trust, Taxes, and Compliance," K. J. Meier and D. R. Morgan, "Citizen Compliance with Public Policy: The National Maximum Speed Law," *The Western Political Quarterly* 35, no. 2 (1982). p. 262

<sup>209</sup> *Ibid.* p. 163

All the above-mentioned measures for the facilitation of policy operation create reputational effects, which are beneficial for the acceptance of policies,<sup>210</sup> and consequently advantageous for the fulfilment of its stated objectives.<sup>211</sup>

In the context of the Islamic state, it will have to create these reputational effects if it is to make policy effective, because the Islamic status of the policy and polity is not by itself sufficient to generate automatic trust between the individual and the state, nor would *zakat's* religious nature elicit acceptance and compliance from the individual. It would take a concerted effort on part of the *state authority*, i.e. the Islamic state, to facilitate an environment conducive to the generation of trust between the *homo Islamicus* and itself by demonstrating commitment towards policy imposition, operation and effectiveness.

## Conclusion

The chapter has examined the political economy of Islamic social policy through the political structure of the Islamic state. It has argued that welfare instruments are susceptible to political manipulation despite their sacred origins. It has shown that the nature of the Islamic state could influence the decision-making process of a policy and affect its shape in a way that could derail the policy from its objectives and hence have a negative impact on its effectiveness. The chapter has also shown that regardless of the religious overtones of the policy and the institutions involved in its operation, the state needs to win the trust of the public through demonstrating commitment towards the policy in order to ensure its effectiveness.

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<sup>210</sup> Levi, "Trust and Governance." pp. 87-93. S. Svallfors, "Political Trust and Attitudes Towards Redistribution," *European Societies* 1, no. 2 (1999).

<sup>211</sup> Svallfors, while researching political trust and attitudes in Sweden and Norway, nullifies the claim that there are obvious links between political efficacy and trust on the one hand and attitudes towards redistribution on the other. However, at the same time he acknowledges the fact that his findings could be relevant only to the case of Sweden and Norway. Svallfors, "Political Trust and Attitudes." p. 241



This chapter has also analysed the operational tools of the Islamic economic system namely, the absence of *riba*, the operation of *modarabah*, the presence of the Islamic state and the imposition of *zakat*, through which the system aspires to create economic justice in the society. Considering the pivotal place attributed to *zakat* in economic redistribution and social security by the Islamists (as examined in section 2.1 of this chapter), it follows that their assertions need to be tested on empirical ground, keeping the analyses of the political economy of the Islamic welfare policy under consideration. This therefore leads to the principal question of this thesis: did *Zakat* deliver welfare and justice in Pakistan between 1980 and 1994?

The above question will be answered in stages in Chapters Three, Four and Five. Chapter Three considers the political and ideological origins of *zakat* policy in Pakistan from the time of Pakistan's creation until *zakat's* formal institutionalisation in 1977 following Zia's military coup. The chapter proceeds to analyse why *zakat* (one of the fundamentals of the Islamic faith) was not introduced immediately after the creation of Pakistan and why was it introduced when it was. Within the framework of the political economy of Islamic welfare policy discussed above, Chapter Three explores the formalisation of *zakat* by investigating the policy-making mechanism of *zakat* and examining the influences on the policy. Finally, it conducts analyses of the eventual shape that the *zakat* policy assumed under Zia's Islamic state. The chapter aims to highlight the fact that *zakat's* divine ordination does not guarantee that it will remain true to its objectives when imposed as a policy. This is because it is also a welfare instrument that can be manipulated by the Islamic polity (considering its economic and political leverage and considering the grey area in the *Shariah* regarding

*zakat*) to advance political ends that have little to do with *zakat's* theological rationale of creating welfare and justice in the society.

Chapter Four examines *zakat* in action by focusing on the revenue side between the years from 1980 to 1994. It examines the amount of *zakat* revenue at the national aggregate level and assesses the pattern of *zakat* given by the individuals at the micro level. The chapter compares the assertions of the Islamists regarding *zakat's* ability to tap the wealth of the rich, its resource mobilisation capacity and compliance aspects with its actual functioning in Pakistan. The chapter advances to analyse the role of the Islamic state regarding its commitment towards the *zakat* policy that had major implications for the creation of trust between the state and the individual. The chapter conducts these analyses as a consequence of an historical investigation of the kind of governments that came to power in Pakistan after its establishment and their ability to demonstrate credible commitment to their declared objectives to the people of Pakistan. This exercise aims to underscore the implications that the absence of trust had for *zakat's* ability to achieve its objectives. The chapter endeavours to draw attention to the fact that the *zakat* policy, based on a sacred ideology, does not hold a promise of compliance from the individual towards *zakat*. For the *zakat* policy to be effective, the Islamic state needs to create the element of trust between itself and the individual by showing commitment to the policy.

Chapter Five assesses the benefits of *zakat* in Pakistan. It aims to evaluate these benefits in the light of the results of Chapters Three and Four and how these results affected the Islamists' aspirations regarding *zakat's* ability to reduce poverty and inequality in Pakistan. Initially the chapter narrates the historical development of social welfare in Pakistan since its creation in 1947 with the aim of acquainting the reader with the conditions of social

welfare before the introduction of *zakat*. Secondly, the chapter examines the disbursement of *zakat* at the national aggregate level and thirdly, it provides answers at the household level regarding the questions of who received *zakat* and how much. The chapter then moves on to answer the specific question of *zakat* and its ability to alleviate poverty and reduce inequality.

## Chapter Three

### Institutionalisation of *Zakat* in Pakistan

#### Introduction

Within the framework of the political economy of Islamic welfare policy discussed in Chapter Two (which analyses not only the ideological and political context of the Islamic way of governance but also explores the policy making process in an Islamic polity), this chapter investigates the process of the formal institutionalisation of *zakat* by examining its policy-making process and the influences operating on it. The goal of this chapter is to elucidate the point that *zakat* (a welfare instrument with redistributive economic consequences), although part of an idealised economic system, is at the same time also a political structure that is handled by a human agency and therefore is not divorced from interest groups that create and steer policies to cater to their own vested interests.

The present chapter also reflects on the political and ideological origins of *zakat* policy in Pakistan. It places *zakat* within the historical context of Islam in Pakistan (as it would be futile to discuss any aspect of *zakat* in Pakistan without considering Islam's importance and development in the country's history). For many Pakistan's emergence appears to have been a determinant of religion.

This chapter is divided into two sections. The first section introduces the reader to the role of Islam in the creation of Pakistan and its subsequent history in which the roots of *zakat* lie. It begins by tracing the historical origins of Islamism in Pakistan to the time of British rule in India, when the demand for the constitutional safeguards of the Muslims of the Sub-

continent became popular in the 1940s under the banner of the Two-Nation theory. The proponents of this theory hold that there are two nations inhabiting India with their own distinct culture, history, society and customs, namely the Muslims and the Hindus. It considers India to be inhabited by people who are deeply divided by racial, religious and linguistic antagonisms, and lack homogeneity.<sup>212</sup> It considers Muslims to be one nation with Islam at the centre of their existence where Islam transcends the geographical boundaries of Punjab, Baluchistan and Bengal, along with the racial confines of caste, colour and creed.<sup>213</sup> This ideology was expressed in the country's various constitutions and Pakistan's Islamic nature was formalised in the 1973 Constitution. This section also endeavours to bring to the forefront the schism in this Islamic ideology that explains why Islamisation and hence *zakat* were not introduced by governments immediately after the formation of Pakistan in 1947 and why this move was finally made after Zia came to power in 1977.

The second section explains why and how Zia introduced and pursued his agenda of Islamisation in Pakistan, as a consequence of which *zakat* was introduced. It focuses on the development of the *zakat* policy under the influence of the Islamic polity created by Zia. It examines the *zakat* policy development. A comparison of orthodox clerical views of *zakat* with the details of the policy as implemented by Zia reveals some of the broader political objectives of *zakat* policy. It examines how the nature of the Islamic state helped it to steer and influence *zakat* policy.

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<sup>212</sup> A. Hamid, *Muslim Separatism in India: a brief survey 1858-1947* (Karachi: Oxford University Press, 1967).p. 36

<sup>213</sup> For full analyses see Iqbal, *Ideology of Pakistan*.

It is not the purpose of this thesis to provide a detailed analysis of Pakistan's emergence. Nonetheless as pointed out earlier, considering the subject of this treatise i.e. *zakat* in Pakistan, it becomes imperative to assess the role of Islam in Pakistan's creation, as according to the claims of the official historiography, Islam is supposed to be Pakistan's *raison d'être*. This perspective is rather linear and assumes that the achievement of a homeland for the Muslims of South Asia was the result of almost a century of Muslim aspirations and sacrifices. The following passages assess the Islamic character of Pakistan's emergence as this would not only shed light on the shape that *zakat* finally took but will also elucidate upon its achievements which are assessed in the last two chapters. In assessing the role of Islam in Pakistan's creation, this assessment will assess both the traditional i.e. the official historiography and the revisionist perspective i.e. sources that have challenged the Islamic heroicism embedded in the conventional historiography of its creation.

### **3.1 Islam and the Emergence of Pakistan**

#### **Pakistan's Islamic Ideology**

Since the emergence of Pakistan the role of Islam has assumed centre stage as Islam seems to have determined the establishment of Pakistan. In Pakistan the more widespread version of the birth of Pakistan is attributed to the application of the Two-Nation theory (as explained above),<sup>214</sup> in other words that the Islamic nation was engaged in a political mobilisation that led to the creation of Pakistan.<sup>215</sup> This led to the Lahore Resolution passed on 23 March 1940, which explicitly demanded the partition of India to create Pakistan; a

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<sup>214</sup> I. H. Qureshi, *The Muslim Community of the Indo-Pakistan Subcontinent (610-1947): A Brief Historical Analysis*, Publications in Near and Middle East Studies/Columbia University; series A.1 Columbia University. Publications in Near and Middle East Studies; series A.1 ('S-Gravenhage: Mouton, 1962). Also see, Pakistan Historical Society, *Freedom Movement*.

<sup>215</sup> I. H. Qureshi, *The struggle for Pakistan*, Publications of the University of Karachi (Karachi: University of Karachi, 1965). Also see, H. Malik, *Moslem Nationalism in India and Pakistan* (Washington, DC: Public Affairs Press, 1963).

separate homeland for the Muslim nation of India, and independence on the 14<sup>th</sup> of August 1947 was the eventual achievement of this movement.<sup>216</sup> There are several inconsistencies in this interpretation, including the fact that the Lahore Resolution called for the establishment of Muslim 'states' and not 'a state', calling into question the validity of this interpretation of the Two-Nation theory. This takes us to the revisionist interpretation of the emergence of Pakistan which argues that Jinnah did not necessarily want a separate state and employed the Two-Nation theory as a 'tactical bargaining counter' to unite the Muslims of India to ensure a secure and legitimate place for the Muslims within the constitutional framework of a united India.<sup>217</sup>

The Two-Nation theory in this view was not synonymous with separatism.<sup>218</sup> The merit of this theory was that as opposed to being considered a community which would consign the Muslims' status to that of a minority, this would give them equal status with the Hindus in the governance of India irrespective of their numbers, since the family of nations contains the big and the small.<sup>219</sup> The thrust of Jinnah's political strategy was initially to secure the recognition of the Indian Muslim nationhood on the basis of the acceptance of the 'Pakistan' demand by the British and the Congress, and thereby gain an equal say for the Muslims in any arrangement about India's political future at the centre. Once the principle of the Muslim right to self-determination, as embodied in the 1940 Lahore Resolution, was

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<sup>216</sup> R. J. Moore, "Jinnah and the Pakistan Demand," *Modern Asian Studies* 17, no. 4 (1983). p. 529

<sup>217</sup> A. Jalal, *The sole spokesman: Jinnah, the Muslim League and the demand for Pakistan* (Cambridge: Cambridge University Press, 1994). p. 57. Another ideologically motivated argument is grounded in the role of Imperialism and the British machinations to divide and rule the two communities, which led to heightened tensions that eventually partitioned India. Partition was the result of the interplay of three factors namely, divided and disorganized Muslim community, Congress party's underestimation of Muslim feeling and fear and a weakened British raj in the specific circumstances of world war and the effect of the conflict and its aftermath on the British that precipitated the state of Pakistan. A. I. Singh, *The Origins of Partition of India, 1936-1947*, *Oxford University South Asian Studies Series* (New York: Oxford University Press, 1987).

<sup>218</sup> Moore, "Jinnah and the Pakistan Demand." p. 538. A. Roy, "Review: The High Politics of India's Partition: The Revisionist Perspective," *Modern Asian Studies* 24, no. 2 (1990). p. 391

<sup>219</sup> Jalal, *The sole spokesman*. p. 52-60

conceded, the resultant Muslim state or states could either 'enter into a confederation with non-Muslim provinces on the basis of parity at the centre' or as a sovereign state (or states) engage in treaty arrangements with the rest of India on matters of common concern.<sup>220</sup> As late as 6 June 1946, when Jinnah accepted the Cabinet Mission Plan, it seems that he was willing to abandon the 'Pakistan' plan. The Cabinet Mission offered a grouping of Muslim provinces and offered Jinnah the effective content of a federation that could protect the interests of Muslims in India. Though the centre itself would not have been as strong and thus the prospects for 'parity' at the centre that Jinnah would have liked (to ensure his authority over the Muslim provinces) were doubtful, the communal provisions of the Plan held out the promise of a power broking role for the Muslim League at the centre. The Plan denied the principle of secession and stood for preservation of India's integrity.<sup>221</sup> It represented the last serious attempt to reconcile the notion of Pakistan as territory with the notion of Pakistan as a symbolic marker of a larger community.<sup>222</sup> But, the Cabinet Mission Plan was killed: and Nehru did more than anyone to kill it by his refusal to accept the formula of 'Grouping',<sup>223</sup> and the weak centre which would thwart the prospects of Congress dominance at the federal level. With the failure of the Plan, Pakistan's realisation as a territorial state became inevitable. Jinnah had held the view that in the face of the 'Pakistan' plan, the Congress would be forced to accommodate his demands and prevent the calamity of India's dismemberment. However, after Jinnah's acceptance of the Cabinet Mission Plan, the Congress called Jinnah's bluff, shattering his political strategy and ambition<sup>224</sup> but actually precipitating the emergence of Pakistan.

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<sup>220</sup> Ibid. p. 241

<sup>221</sup> Roy, "The High Politics of India's Partition."

<sup>222</sup> D. Gilmartin, "Partition, Pakistan, and South Asian History: In Search of a Narrative," *Journal of Asian Studies* 57, no. 4 (1998), p. 1084

<sup>223</sup> H. Tinker, "Jawaharlal Nehru at Simla, May 1947. A Moment of Truth?," *Modern Asian Studies* 4, no. 4 (1970), p. 355

<sup>224</sup> Roy, "The High Politics of India's Partition." p. 405



The Two-Nation theory was incorporated by Jinnah in his politics only after the 1937 elections. There is hardly any debate about the outcome of these elections as their results proved to be an embarrassment for the League candidates against the overwhelming success of the Congress in the non-Muslim constituencies. These results not only revealed the limitations of Jinnah and the League but also positively reduced their importance to the Congress<sup>225</sup> and the prospect of the Congress' dominance at the centre became clearer.<sup>226</sup> It was then that Jinnah embarked on a new strategy by formally demanding independent Muslim states, repudiating the minority status which separate representation necessarily entailed and instead asserted that the 'Muhammadans' of India were a nation. This was a tactical move to overcome the Muslim Leagues's political crises.<sup>227</sup> His aims however still continued to be to secure Muslim interests 'within' and not in total separation from India.<sup>228</sup>

The Two-Nation theory manifested itself in the Lahore Resolution of 23 March 1940. Although, the resolution was far from a complete and coherent statement of Muslim demands, one of its most outstanding features was that it declared the Muslims to be a nation, rejecting once and for all their minority status. And although it formally demanded independent Muslim states, it made no mention of partition and none of Pakistan. The nature of this resolution was also obscure on the territorial demarcation of the regions and their relation to each other.<sup>229</sup>

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<sup>225</sup> Moore, "Jinnah and the Pakistan Demand." p. 534

<sup>226</sup> Roy, "The High Politics of India's Partition." p. 390

<sup>227</sup> Jalal, *The sole spokesman*. p. 4

<sup>228</sup> Roy, "The High Politics of India's Partition." p. 391

<sup>229</sup> Jalal, *The sole spokesman*. p. 58-9

It appears that apart from defining Muslims of all India as a nation, there was no other firm resolve in this resolution. This was because Jinnah was aware that there was not one policy platform that would suit the interests of all the Muslims of India, and that was why the resolution was left vague leaving the League followers to make of it what they wished and leaving Jinnah plenty of room for manoeuvre. Any precise scheme would have divided the League because there were contradictions in Muslim interests between majority and minority provinces and between an apparently separatist demand for autonomous Muslim states and the need for a centre capable of protecting the interests of Muslims in the rest of India.<sup>230</sup> Indian Muslims were as heterogeneous as the Hindus of the Sub-continent, divided by social and economic standing, by theology and by region. Certainly, there was not a united Muslim political community with a common national aim even as late as 1945.<sup>231</sup> The appeal of the resolution and that of the Two-Nation theory lay in its loose knit definition of a nation without compromising the interests of any Muslim community. The use of religious slogans and symbols proved immeasurably useful not just in rousing sentiments against the Congress ministries in the provinces but it also helped the League in reaching the Muslim masses over the heads of provincial leaders.<sup>232</sup>

From the above exposition it appears that the official historiography can be challenged on the grounds that the creation of Pakistan was not a direct consequence of the Two-Nation theory and a single Muslim political identity; and that the Two-Nation theory was just a rallying call for the Muslims to take up the cause of securing a legitimate place for themselves within the constitutional framework of a united India.

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<sup>230</sup> Moore, "Jinnah and the Pakistan Demand." p. 551

<sup>231</sup> Singh, *The Origins of Partition of India*.

<sup>232</sup> Roy, "The High Politics of India's Partition." p. 390

However, even if Islam was used just as a symbol, the important question is how powerful was this symbol and how significant was this rallying force considering the manner in which it changed the fortunes of Muslim League? To what extent did the cohesive power of Islam in identifying all Muslims as 'one nation' in the context of South Asia impact on the social and economic policies of the Pakistan that emerged, even if it had not directly driven the emergence of Pakistan in the way described by the official historiography?

The role of Islam in Pakistan's emergence is clearly controversial. Apart from the official historiography and those that hold Islam's role in the pre-independence Muslim League to have been a tactical one, there are those who hold that Islam's role was manipulated by the Muslim political elite in order to legitimise their bid for power.<sup>233</sup> To make its message more appealing, the League utilised Islamic jargon and traditional Islamic idioms to put its message across.<sup>234</sup> These historians like the revisionists hold that the League overhauled its political strategy of operating from a political, religious minority position to that of asserting themselves as a separate nation with its own identity and culture which at many levels appealed to the religious sentiments of the Muslims of India and created widespread religious backing for 'Pakistan' in the mid-1940s. This in turn transformed the Muslim League into 'a chiliastic movement rather than a pragmatic political party.'<sup>235</sup> It is important to note that these historians do not necessarily attribute the creation of Pakistan to Islamic ideology per se.

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<sup>233</sup> P. R. Brass, *Language, religion and politics in India* (London: Cambridge University Press 1974).

<sup>234</sup> I. Talbot, *Provincial politics and the Pakistan Movement: the growth of the Muslim League in North-West and North-East India 1937-47* (Oxford Oxford University Press, 1988). p. 108

<sup>235</sup> P. Hardy, *The Muslims of British India Cambridge South Asian studies* (London: Cambridge University Press 1972). p. 239

Then why did Islamic symbolism have such an extensive and colossal effect on the politics of south Asia and why did the umbrella of Islam which knitted together the identities of all the Muslims of India prove to be so compelling for a heterogeneous Muslim population and produce a rallying force of significant proportions? Was there ever a single Muslim identity with Islam at its centre? The evidence suggests that this was not the case. Was there an all-encompassing Islamic moral order that created an Islamic identity which transcended the myriad particularistic and fragmentary identities and interests that shaped the lives and experiences of India's Muslims?

A view of the formation of a collective Muslim identity from below in the context of the demand for 'Pakistan' suggests that it was through the 'arena of public performance' and of 'collective activities in public spaces' that a sense of shared moral collectivity or identity was expressed. This importantly entailed that 'community', as enacted in such public arenas, was never fixed or static which in turn helped to crosscut the conflicts and divisions between varied Muslim identities rooted in everyday life. It was through this route that larger notions of moral order and therefore identity were expressed and created.<sup>236</sup> This 'public realm' of cultural and religious ceremonials created a common language of religion and order which consequently fostered a sense of 'moral collective' or 'community' among the Muslims of India. With the transformations of nineteenth and twentieth-century politics, this process shaped the politics of the public realm in India, which became instrumental in the demand for 'Pakistan'.<sup>237</sup> Men with claims to communal leadership (such as the Ali brothers, Maulana Zafar Ali Khan, Muhammad Iqbal, and, ultimately, Jinnah) increasingly

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<sup>236</sup> A. Freitag, *Collective Action and Community: Public Arenas and the Emergence of Communalism in North India* (Berkeley: University of California Press, 1989). p. xii

<sup>237</sup> Gilmartin, "Partition, Pakistan, and South Asian History." p. 1075 & 1089. See also, F. F. Devji, "Gender and the Politics of Space: The Movement for Women's Reform in Muslim India, 1857-1900," *South Asia* 14, no. 1 (1991).

sought to mobilize broad religious categories of identity. They progressively depended on their ability to successfully deploy the language of moral community and collectivity, as they rallied for the support of autonomous individuals in public platforms.<sup>238</sup> Of course this does not imply that there was a long history of the formation of an 'Islamic political identity' or that this identity when fostered was an exclusive one. It merely asserts that there existed a sense of a Muslim identity at a rather generic level.

Another view of Muslim identity is from the top which asserts that the origins of the Muslim collective identity in the Indian Sub-continent are related to the political and socio-economic crises of the Muslim people. However this view asserts that the identity that was fostered after the fall of the Mughal Empire was more about religious and cultural awareness rather than with active political engagement with the colonial state. With the arrival of the British in the Sub-continent the Muslims began to fear the loss of their integrity among the ruling Christians and the aspiring Hindus. The Muslim *Ulema* troubled by the social and economic dislocation drew on their own traditions for interpretations and patterns of action. They were of the opinion that the only way to restore Muslim self-respect and Islamic political supremacy was to go back to the spirit of classical Islam, i.e. to revert to the practices of the four Pious Caliphs, as their practices were seen to be the true basis of Islamic ideals.<sup>239</sup> They initiated movements that contributed to substantial religious consciousness and reflected and encouraged the growing sense that Muslims in British

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<sup>238</sup> Gilmartin, "Partition, Pakistan, and South Asian History." p. 1076

<sup>239</sup> Pakistan Historical Society, *Freedom Movement*. pp. 535-6. These 'Pious Caliphs', up till today are the point of reference for all aspiring Islamists in the world and their era of Islam is referred to as the 'Golden Era'. The term 'Golden Era' derives from the understanding that Islam was practised in its pure basic form, uncorrupted and unadulterated by the subsequent Caliphates. See also, F. Robinson, "The British Empire and Muslim Identity in South Asia," *Transactions of the Royal Historical Society* 8, no. 6th Ser. (1998). The period of British rule also, sharpened the distinction between Muslim and non-Muslim, which was in part an outcome of the impact of British understandings of India and in part that of religious revivalism. It has long been part of Indian nationalist historiographical tradition that the British privileged religious identities in India over other possibilities, which inevitably helped to sharpen distinctions between Muslim and non-Muslim.

India were tied together in a separate community. The *Ulema* leading these movements exemplified an inward looking sphere for their religious life while at the same time they moved toward an acceptance of 'Indian Muslim' as their fundamental social identity.<sup>240</sup> Initially these movements appealed to different social groups and geographic locations. Over time, however, each attracted a more geographically dispersed and more heterogeneous following.<sup>241</sup>

These movements can be categorised broadly under modernism, reformism and traditionalism and were represented by the Aligarh, Deobandi, Ahl-i Hadis, Nadwa and the Barelvi movements.<sup>242</sup> The reformist group of *Ulema* such as the Deobandi and the traditionalist such as the Barelvi mainly strove to provide religious leadership and their aim was to reconstruct Muslim society in a way that would conserve the Islamic way of learning and its traditional theological stance. Their goal was to create a community that was observant of Islamic religious law and committed to spiritual life. These *Ulema* in the nineteenth century were rather apolitical towards their relationship with the colonial government and shunned or ignored politics. Even though they did not encourage the politicisation of the Muslims, their stress on the differentiation of Muslim and non-Muslim, regardless of numbers, inadvertently evolved into a demand for parity of representation held dear by Jinnah in the years immediately preceding partition. The 'logic of parity' might not have been the consequence of slow evolution of a Muslim political identity but it was religious in origin.<sup>243</sup>

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<sup>240</sup> B. D. Metcalf, *Islamic revival in British India: Deoband, 1860-1900* (Karachi: Royal Book Company, 1989). p. 335

<sup>241</sup> *Ibid.* p. 87 & 264

<sup>242</sup> *Ibid.* p. 3-13 & 315. As early as the turn of the eighteenth century, Shah Wali Ullah (1703-62) and the *Ulema* of Farangi Mahal had hoped for a restoration of stable Muslim rule. p. 35

<sup>243</sup> F. Shaikh, *Community and Consensus in Islam: Muslim Representation in Colonial India, 1860-1947* (Cambridge: Cambridge University Press, 1989).

It was only in the first quarter of the twentieth century that the curriculum of social, cultural and religious consciousness of these movements provided significant impetus in initiating a politicisation of Muslim identity. It was during this time that religious symbols became a basis for political participation which started signifying a Muslim political consciousness (considering the numerous and unique situation of Muslims scattered all over the Sub-continent).

It is important to assert that not all movements initiated by the *Ulema* had an apolitical stance. Aligarh and Nadwa sought an active political role in relation to the colonial government.<sup>244</sup> This movement included liberals, secularists and modernists and followed western ideas of nationalism. A group of north Indian Muslims, led by Syed Ahmad Khan founded the MAO College Aligarh in 1877 and the Aligarh Movement associated with it. It was Syed Ahmad who had initially spoken in terms of 'two nations' inhabiting India and made a point of not supporting the Indian National Congress. He asked the British to acknowledge the political importance of the Muslims and not marginalise them because of their numbers.<sup>245</sup> The alumni of MAO were to form the All-India Muslim League in 1906, and in the same year representatives of this movement went in deputation to the Viceroy to ask for special representation for Muslims and recognition of their 'political importance' in the new legislative councils. It was through the efforts of this movement that the Morley-Minto reforms granted Muslims separate electorates with extra seats, over and above their

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<sup>244</sup> Metcalf, *Islamic revival in British India*. p.316. Nadwa also sought a political role. Its objective was to consolidate a single leadership for all the Muslims guiding them in religious matters and mediating between them and the government. It differed from Aligarh on the ground that Nadwa scholars were not to be Western educated but members of the *Ulema* and act as internal leaders to their community whose prestige did not depend on the acquisition of Western culture but on high skill in traditional learning. Nadwa was founded in 1893 and operated as a Sunni religious academy. It was an association of the *Ulema* based in Lucknow. p. 316 & 336

<sup>245</sup> Ahmed, *Islamic Modernism*. pp. 162-3

proportions of the population, in those provinces where they were 'politically important'.<sup>246</sup>

These reforms opened provincial and national level politics to nationalism and Islam started to become an important force in galvanizing localised Muslim communities into a larger unit capable of competing in the broader political arena.<sup>247</sup>

The two nation idea of Syed Ahmad was later formalised by Mohammed Iqbal in 1930 when he linked Pakistan to a definite territory. He suggested a territorial Muslim state, 'a Muslim India within India' in northwest India (Iqbal did not at that point use the word 'Pakistan').<sup>248</sup> It appears that there was a political pedigree to the idea of the 'two nation theory' that huddled Muslims all over India under a single political identity which was officially employed by the League in 1940. It is important to assert that no direct line should be drawn between the establishment of a Muslim political identity in the constitution in 1909 (Morley-Minto reforms) and the emergence of Pakistan in 1947, although it can be considered one of the many enabling developments.<sup>249</sup> This is because as we discussed earlier, the struggle for 'Pakistan' was not so much to create a separate homeland for India's Muslims, as it was to create a Muslim political community, to define a symbolic center to give moral and political meaning to the concept of a united 'Muslim community' in India which would stand for political parity with the Hindus in an independent India.<sup>250</sup>

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<sup>246</sup> Robinson, "The British Empire and Muslim Identity in South Asia." p. 277-9

<sup>247</sup> D. Page, *Prelude to partition: the Indian Muslims and the Imperial system of control, 1920-1932* (Delhi, Oxford: Oxford University Press, 1999). p. 14-5

<sup>248</sup> Gilmartin, "Partition, Pakistan, and South Asian History." p. 1081. Also see, Moore, "Jinnah and the Pakistan Demand." p. 539

<sup>249</sup> F. Robinson, *Separatism among Indian Muslims: the politics of the United Provinces' Muslims, 1860-1923*, vol. 16, *Cambridge South Asian studies* (London: Cambridge University Press, 1974). p. 84-174

<sup>250</sup> Gilmartin, "Partition, Pakistan, and South Asian History." p. 1071. See also, Jalal, *The sole spokesman*. p.



However, after the First World War even the reformist *Ulema* started to assert their political identity and began to play an active role in opposition to the British administration. The Deobandi conception of the political role of Muslims in India had been shaped by the nature of their religious reforms. They sought the answer to the decline of the Muslim state in the development of a Muslim community guided and regulated by the *Ulema*. They emphasized religious education as the key to the united participation of Muslims in politics. They sought to develop a view of religious solidarity which was itself political and based on the authority of the *Ulema*, who interpreted the religious law and Muslim public opinion.<sup>251</sup> This political role was demonstrated first during the Khilafat movement founded in 1919 to protect the temporal and spiritual power of the Ottoman caliphate under the banner of pan-Islamism. Also, Maulana Husain Ahmad Madani (who was a principal of Dar-ul-Ulum<sup>252</sup>) was prominent in the formation of the Jamiat-i-Ulama-i-Hind in 1919 which happened to be the first independent organisation originating from the *Ulema* leadership in India.<sup>253</sup> This Jamiat joined the Indian National Congress and campaigned for Muslim and Hindu unity in an independent India.<sup>254</sup> Most of the *Ulema* were opposed to the League and its irreligious leadership and they gave almost no support to the League on account of its secular politics. These *Ulema* were wary of the authority of Muslim

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<sup>251</sup> P. Hardy, *Partners in Freedom-and True Muslims: The Political Thought of Some Muslim Scholars in British India, 1912-1947* (Scandinavian Institute of Asian Studies, 1971). p. 40-1

<sup>252</sup> A theological academy founded in 1867 at Deoband a small town near Delhi.

<sup>253</sup> D. Gilmartin, "Religious Leadership and the Pakistan Movement in the Punjab," *Modern Asian Studies* 13, no. 3 (1979). A. S. Ghazali, "Islamic Pakistan: Illusions and Reality," (Eagle Enterprises, 1997). Chapter II. p. 1. There was also Majlis-i-Ahrar-i-Islam founded in 1931 under the leadership of Ataullah Shah Bukhari. It was one of the most active and influential in its political agitation against the League. The Ahrar leaders dissolved their organisation after the Partition and migrated to Pakistan. Then there were other political groups of *Ulema* such as the Jamiat Ulema-i-Islam. Maulana Shabbir Ahmad Usmani quit Jamiat-i-Ulema-i-Hind and formed Jamiat-i-Ulema-i-Islam in 1946. It was opposed to the Jamiat-i-Ulema-i-Hind's position of siding with the Congress. Jamiat-i-Ulema-i-Islam supported the concept of Pakistan. After Partition, the party shifted to Karachi in Pakistan and began lobbying for the Islamisation of the country.

<sup>254</sup> Ahmed, *Islamic Modernism*.p. 104

politicians and of the idea of yielding power to a state controlled by such politicians.<sup>255</sup> Their disquiet had been increased by Jinnah's incorporation of the notion of discretion in choosing between Islamic law and customary law during the passage of the Muslim Personal Law Bill in the Central Legislature in 1937.<sup>256</sup> Additionally, they were not sympathetic towards the concept of Pakistan as they held pan-Islamic beliefs. For them Pakistan was basically a territorial construct and was thus alien to the philosophy of Islamic brotherhood, which was universal in character.<sup>257</sup> The notion of a western model of a nation-state was not compatible with Islamic political values. According to them, Islam could not be confined within national borders, as Muslims around the world were one nation.<sup>258</sup>

There were some reformist *Ulema* and many of the *Pirs* of the shrines who supported the League. Foremost among the reformist *Ulema* was Maulana Shabbir Ahmad Usmani, who had once been an active member of the Jamiat-i-Ulama-i-Hind, and who now was called upon to head the new, pro-Pakistan Jamiat-i-Ulama-i-Islam. Maulana Shabbir Ahmad Usmani subsequently issued a statement supporting the League in the name of the 300 or so *Ulema*.<sup>259</sup> The most vital religious support for the League came from the *Pirs* of the shrines who had long sought an outlet for expressing their religious concerns in the political arena.<sup>260</sup>

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<sup>255</sup> Gilmartin, "Religious Leadership and the Pakistan Movement in the Punjab." p. 509. Also see, Saleem M. M. Qureshi, "Pakistani Nationalism Reconsidered," *Pacific Affairs* 45, no. 4 (1972-1973). p. 561

<sup>256</sup> I. Talbot, *Pakistan, a modern history* (New York St. Martin's Press, 1998). p. 28

<sup>257</sup> Pan-Islamism purports that all Muslims are one body. It is the idealistic base for Islamic solidarity. It rejects geographical boundaries and separations among Muslims. The idea believes in the Islamic Caliphate, i.e. that political as well as the spiritual authority rests with the Caliph for the Muslims to follow. Pan-Islamism summons the allegiance of the Muslims to the Caliph, who represents Islamic brotherhood and unity. See Ahmed, *Islamic Modernism*. pp. 88-9

<sup>258</sup> Ghazali, "Illusions and Reality." Chapter II p. 1

<sup>259</sup> Gilmartin, "Religious Leadership and the Pakistan Movement in the Punjab." p. 511-12

<sup>260</sup> Ibid. p. 516. In the elections of 1946 it was the *Pirs'* support that played an important role in carrying the Muslim League to triumph over the Unionist Party in the Punjab

According to the above analysis, there appears to be a twofold thrust to the creation of a Muslim identity (even if not immediately a political one) in many parts of south Asia. There was the impetus being build in the 'public realm' which consequently fostered a sense of 'moral collective' or 'community' among the Muslims of India and then, there were the movements initiated by the *Ulema* that fostered not only Muslim social, cultural and religious identities but in the beginning of the twentieth century initiated a process of politicisation of the Muslim identity. Over time these movements began to attract a more geographically dispersed and more heterogeneous following among Muslims. What also needs to be mentioned here is that the period of British rule brought firmer edges to Muslim identities. There was a sharpening of the distinction between Muslim and non-Muslim, which was in part an outcome of the impact of British understandings of India and in part that of religious revivalism through the *Ulema*. There was also the development of a separate Muslim political identity against the claims of an all-inclusive Indian national identity.<sup>261</sup> The politicisation of the Muslims during the Khilafat agitation contributed to new communal demands. Islamic ideas exerted immemse normative power not only on the Muslim masses but importantly on the Muslim elite. Economic and political threats also created communal factions and increasingly Muslims began to define themselves in terms of religious identification.<sup>262</sup> Even after asserting the above, it is important to point out that it was not the emergence of this identity and its expression that lead directly to Pakistan's emergence, as the rationale of politicisation of the Muslim identity was to create a Muslim political distinctiveness, and Islam was to be the emblem which would provide the moral and political basis to the concept of a united 'Muslim community' in India.

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<sup>261</sup> Robinson, "The British Empire and Muslim Identity in South Asia." p. 272-3

<sup>262</sup> Robinson, *Separatism among Indian Muslims*.

After the fall of the Mughal Empire the Muslims were compelled to become culturally, socially and religiously self-consciousness due to various factors discussed above. This awareness at various dimensions augmented into political recognition of themselves at the beginning of the twentieth century. The League was able to ride the religious sentiments via alliances with not only some of the reformist *Ulema* but also with the *Pirs*. It was also able to organise itself over and above the divisions between the political concerns of rural interests versus urban, *Ulema* versus *Pirs* and was therefore in many instances able to overcome the tension between images of a 'collective moral unity' and the divisions and hierarchies of everyday local existence.

Even though Pakistan's emergence cannot be directly attributed to the Two-Nation theory, the demand for the constitutional safeguards of the Muslims of the Sub-continent was indeed popularised in the 1940s under its banner. The League, although secular in its political orientation recognised the importance of growing Islamic universalism and its importance in the general consciousness of Muslim identity. It therefore used Islam's rallying power to cut across parochial political loyalties to build a broad based movement to seduce Muslims to converge under the Muslim League's single point agenda i.e. special constitutional rights and privileges to protect Muslim interests in independent India. Islam proved to be a strengthening force for the League's demands. It was only with the Congress's rejection of Jinnah's demands of Muslim participation in shaping the future of the Indian republic that Pakistan emerged on the world map on 14 August 1947, priding itself for being the first country in the world to be created in the name of Islam under the leadership of Mohammed Ali Jinnah, popularly known as *Quaid-e-Azam* (the great leader).

### *Schism in Pakistan's Islamic Ideology*

Considering the diverse strands of political strategy embedded in the Lahore Resolution, the Two-Nation theory and Jinnah's acceptance of the Cabinet Mission Plan, it is not surprising that on the eve of Pakistan's emergence, Pakistanis were rather ill equipped for statehood and constructing their own federal organisation. Indeed, there does not appear to have been any systematic or structured political preparation for a separate Muslim state. The Pakistan state was from its inception a weak one and its roots in the provinces that made up Pakistan were feeble. The population of these provinces had little in common apart from the fact that they were Muslim. There existed deep seated ethnic divisions which culminated in tensions between Punjabi, Muhajir, Bengali and Sindhi nationalists over power sharing and resource allocations.<sup>263</sup> The West Pakistani elite (mostly elite Punjabi and Muhajir) were concerned by the more populous East Pakistan's (Bengali) 'threat' of political and cultural domination and therefore wanted to restrain the Bengali demands for a bigger proportion of economic investments, military expenditure and greater representation in the government service. The constitution making process (which will be discussed in Chapter Four) and the debates there started to reveal the cracks that existed in the newly created state. Bengal started to become increasingly alienated from the West wing due to the political centre's aversion to its claim on resources. Issues such as the distribution of power between East and West Pakistan, the question of the national language and the role of Islam preoccupied the political elite.<sup>264</sup>

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<sup>263</sup> S. V. R. Nasr, *Islamic Leviathan: Islam and the Making of State Power* (New York: Oxford University Press, 2001). p. 58-60

<sup>264</sup> L. Binder, *Religion and Politics in Pakistan* (Berkeley & Los Angeles: University of California Press, 1963). Also see, R. Jahan, *Pakistan: Failure in National Integration* (New York: Columbia University Press, 1972). p. 25-7

Many Pakistani leaders were against giving Islam a central role in national politics, as they had only used the Islamic slogan to make Muslims aware of their identity as a distinct nation. For these leaders, the basis of the state was political rather than religious. However, the League was aware that they had mobilised the masses under the slogan of Islam and the legitimacy of the new state would have to be found in some manifestations of Islamism in the new polity. Additionally, in the face of ethnic, linguistic and class conflicts, Islamic symbolism could be utilised in the service of state formation.<sup>265</sup> Moreover, because the League, that held the reins of the government at the time, lacked a definitive ideology of their own, they started to yield to the pressure of Islamising forces in Pakistan.

However, as far as Jinnah's view on state formation was concerned, he saw the role of Islam as symbolic and the Pakistan that he had achieved was to be built as a non-theocratic state. He did not anticipate Islam's religious assertion in Pakistani society. He foresaw the 'Islamic state' of Pakistan as embracing the qualities of an ideal secular state, 'where in the course of time Hindus will cease to be Hindus and Muslims will cease to be Muslims, in the political sense as the citizens of the State'.<sup>266</sup> Jinnah distinctly and emphatically pointed out, 'Make no mistake, Pakistan is not a theocracy or anything like it. Islam demands from us the tolerance of other creeds and we welcome in closest association with us all those who of whatever creed are themselves willing to play their part as true and loyal citizens of Pakistan'.<sup>267</sup> He did not see Pakistan's polity to be founded on or designed to promote the viewpoint of any one sect but like an ideal secular state, it was to project the welfare of all its citizens regardless of their caste, colour or religion. Thus, Islam was not to be implemented rigidly, since this would lead to the alienation of minority groups in the

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<sup>265</sup> Nasr, *Islamic Leviathan*. p. 60

<sup>266</sup> Iqbal, *Ideology of Pakistan*. pp. 5-6. Presidential address to the Constituent Assembly, 11 August 1947.

<sup>267</sup> *Ibid.* p. 5

country. With regards to the kind of economic system Jinnah foresaw for Pakistan, he believed in a mixed economy on a pattern that could be termed 'Islamic Socialism'. He used the term Islamic Socialism to emphasise Islamic ideals of equality and social justice, where the sense of community would overtake individual interests whether financial or political. The implication of this thought for him was to realise a classless society through the politico-moral principles of equality, justice and evolution (i.e. with the consent of the people secured through democratic means).<sup>268</sup> Jinnah did not live long enough to clarify his statements regarding religion and to develop a political legacy or philosophy for Pakistan, as he died only one year after the birth of Pakistan. His death provided an opportunity for Islamic elements in Pakistan to seize every word he had uttered in favour of Islam, moulding them to create a religiously driven political environment for the present and future of Pakistan.

Even if Jinnah had lived longer, it is by no means certain that Islam would not have taken centre stage in Pakistan's polity. The state struggled to consolidate power at the centre and failed to address fundamental socioeconomic issues and carry out meaningful land reforms which consequently gave way to the entrance of Islamic parties in the fray and allowed Islamism to influence the national political discourse.<sup>269</sup> Additionally, the *Ulema* and the *Pirs* that had collaborated with the League wanted Pakistan to emanate ideals of a traditional religious state firmly based on *Shariah*. After all, the Muslim League's popularity in the decade leading to the Partition owed considerably to this group and this inadvertently laid the grounds for a religious mandate for Pakistan.<sup>270</sup>

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<sup>268</sup> Ibid. p. 1-7 & 13. Jinnah once used the term to distinguish his economic stance from the Socialism of Pandit Nehru. The word was used in a speech at Chittagong on 26 March 1948.

<sup>269</sup> Binder, *Religion and Politics*.

<sup>270</sup> Gilmartin, "Religious Leadership and the Pakistan Movement in the Punjab." p. 517

The Islamic political voice became more strident when in 1948 the Jamiat-i-Ulema-i-Islam, led by Maulana Shabbir Ahmed Usmani, passed a resolution in Karachi demanding that the government appoint a leading scholar to the office of *Shaikh al Islam* (leader of Islam) with appropriate ministerial and executive powers over the judges throughout the country and that this ministry be immune to ordinary changes of the government.<sup>271</sup> Maulana Shabbir Ahmad Usmani had quit Jamiat-i-Ulema-i-Hind and formed Jamiat-i-Ulema-i-Islam in 1946 as it was opposed to the Jamiat-i-Ulema-i-Hind's position of supporting the Congress. The Jamiat-i-Ulema-i-Islam supported the concept of Pakistan and therefore after Partition, the party shifted to Karachi and began lobbying for the Islamisation of the country. There was also the Majlis-i-Ahrar-i-Islam founded in 1931 under the leadership of Ataullah Shah Bukhari. Although it was one of the most active and influential in its political agitation against the League, after the Partition the Ahrar leaders dissolved their organisation and migrated to Pakistan. In addition the Jamaat-i-Islami founded by Maulana Mawdudi (who was a graduate of Dar-ul-Ulum, see Chapter One) in 1941 migrated to Pakistan from India where his party started its demand for an Islamic state in Pakistan.<sup>272</sup> Decades later, the Jamaat-i-Islami was to be instrumental in the Islamisation of Pakistan under Zia's regime as it forwarded its Islamic point of view in a manner that became synonymous with Islam for the Pakistani masses.<sup>273</sup>

Incrementally, there started to appear a schism between the secularists and the religious groups as the secular forces were unwilling to abandon their secular stance of making

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<sup>271</sup> Ghazali, "Illusions and Reality." Chapter III, p. 1

<sup>272</sup> Nasr, *Islamic Leviathan*. p. 94

<sup>273</sup> S. Mahmood, *Islamic Fundamentalism in Pakistan, Egypt and Iran* (Lahore: Vanguard Books, 1995). pp. 98-99



Pakistan a thoroughly secular state, even in the face of a weak federation. As the Islamic forces became more influential in political discourse, there appeared a tug of war between those who wanted Pakistan to be a 'Muslim Homeland' or an 'Islamic State'. This schism remains among the Pakistani liberals and the *Ulema* till today and has manifested itself in the political arena of successive governments.

Immense pressure was exercised by religious groups on the law-making body of Pakistan. Disputes over Pakistan's Islamic character dominated the debate over the specific form of the constitution. The religious Islamic factions argued that Pakistan was created in the name of Islam, and that the establishment of an Islamic state should be the natural outcome of its creation.<sup>274</sup> The secular and liberal groups in Pakistani politics found themselves playing into the hands of the organised *Ulema* who were determined to make Pakistan an Islamic country, and wanted an Islamic constitution for it.<sup>275</sup> A brief look into the first legal document of Pakistan that defines its character as a nation state is pertinent here, as it highlights the place of Islam in the country and how this document was to pave the way for the future Islamisation of Pakistan.

On 7 March 1949, the Objectives Resolution was the first important document presented before the Constituent Assembly as a preamble on which the future constitution of Pakistan was to be based. It was deliberately vague regarding the Islamic future of Pakistan. On the one hand it paid lip service to Islam in statements such as, 'Whereas sovereignty over the entire universe belongs to God Almighty alone and the authority which He has delegated to the State of Pakistan through its people for being exercised within the limits prescribed by

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<sup>274</sup> A. Iqbal, *Islamisation of Pakistan* (Lahore: Vanguard, 1986). p. 42-57

<sup>275</sup> A. Wilder, "Islam and Political Legitimacy in Pakistan," in *Islam and Democracy in Pakistan*, ed. M.A. Syed (Islamabad: National Institute of Historical and Cultural Research, 1995), p. 38

Him is a sacred trust', and also, 'Wherein the Muslims shall be enabled to order their lives in the individual and collective spheres in accordance with the teachings of Islam as set out in the Holy *Quran* and *Sunnah*'. On the other hand it made no attempt to define the form of the Islamic state in Pakistan. It offered highly imprecise broad Islamic objectives and interestingly, the word '*Shariah*' was not mentioned in the entire document.<sup>276</sup> It means that the Muslim League, who held the reins of the government at the time and were responsible for the formation of this Resolution, although lacking a definitive ideology of their own, were not going to permit any Islamisation of society that could potentially fall out of their purview. Through this Resolution, the League was able to retain control over the flow of Islam in the political process and limit the scope of Islamisation. After the Resolution was passed, the modernist Prime Minister Liaqat Ali Khan (once Jinnah's right hand man) lost no time in emphasising that Pakistan would not be a theocratic state run by the priesthood or any sacerdotal authority, as this concept was alien to Islam.<sup>277</sup>

From the above analysis it appears that the League was unwilling to introduce Islam in the political arena, and was able to check its role in Pakistan's politics through ambiguous declarations regarding Islam. However, it also appears that due to problems with state consolidation, owing to ethnic divisions and disputes between the provinces, the League had no option but to accommodate (to whatever extent) Islamic demands and consider Islamic political forces as a natural part of the political discourse. Islam slowly began to emerge as the *raison d'etre* of Pakistan and a default ideology in the process of nation building.

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<sup>276</sup> The Constituent Assembly of Pakistan was formed to give the country a constitution, and serve as its first parliament. It first convened on 11 August 1947, just three days before the end of British rule. Mehdi, *The Islamisation of Law*. pp. 72-3. Also see, Binder, *Religion and Politics*. p. 152

<sup>277</sup> Mehdi, *The Islamisation of Law*. p. 73

### *Islam and Zakat under the First Islamic Republic*

Under increased political pressure from the religious factions of Pakistan, Islam was taking centre stage and the modernists found it difficult to counter this development. Days after the presentation of the Objectives Resolution on 12 March, in response to unrest from religious factions, Liaqat Ali set up a Basic Principles Committee whose aims was to advise the government on Islamic principles of the future constitution.<sup>278</sup> Under this Committee, it was decided that a Board of Islamic Teachings, consisting of five members, should be set up to deal with the specifics of the Islamic aspects of the future constitution of Pakistan.

On 13 March 1950 the government started with the basics of Islam and constituted a *Zakat* Committee under the supervision of the Ministry of Finance. This Committee consisted of four members of the clergy of different schools of thought and seven non-religious members.<sup>279</sup> In 1952 its report was finalised on the basis of a questionnaire.<sup>280</sup> The issues discussed were the exact scope of *zakat*, the assets on which it should be levied, the rate and period of assessment, the purposes on which *zakat* could be spent, and the suitable organisation for the assessment and collection of *zakat*.<sup>281</sup> The Committee resolved that the assets on which *zakat* was to be levied were cash, gold, silver, trade commodities, livestock, agricultural land, mines and treasure troves. The Committee also dealt with questions of property and assets belonging to corporate bodies and was of the view that

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<sup>278</sup> S. A. Haider, *Islami Nazriati Council Irtqai Safar aur Karkardagi* (Islamabad: Dost Publications, 2006).p. 121

<sup>279</sup> Malik, *Colonialization of Islam*.p. 86, p. 114 fn 11. Liaqat Ali was assassinated on 16<sup>th</sup> Oct 1951 and was succeeded by Khawaja Nazimuddin

<sup>280</sup> Ibid. p. 86

<sup>281</sup> Nazir, *Zakat Law*.p. 24

*zakat* should be collected on all these assets.<sup>282</sup> The Committee made the following recommendations:<sup>283</sup>

- a) *Zakat* would be collected on a voluntary basis through the sale of *zakat* coupons at government treasuries and post offices.
- b) The sale proceeds would be credited to a special fund called the '*Zakat Fund*'.
- c) A board of trustees would be set up by the central and provincial governments, which would administer the funds so collected.
- d) The funds would to be spent on specified purposes, such as setting up orphanages and widow houses.
- e) Payment of *zakat* would not provide any relief from other government taxes.

This system of *zakat* was clearly a half-hearted attempt on the government's part. It was a voluntary *zakat* system on an experimental basis. The Committee expected Rs. 200 million to be raised, but in 1954 the voluntary *zakat* raised was no more than Rs. 10,000.<sup>284</sup>

It seems that Liaqat Ali or the governments after him were not too keen on a formal institutionalisation of *zakat* as such a move might have ignited sectarian conflicts in the new country, so *zakat* was introduced on a voluntary basis. This meant that none of the Muslim sects were to feel that their religious beliefs were being suffocated by the antagonism of the other, yet it also neatly responded to the religious demands of the *Ulema*. This was a convenient way for the government to show its commitment to Islam and also tackle the clerics without having to commit more fully to Islamisation.

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<sup>282</sup> Ibid. p. 25

<sup>283</sup> Ibid. p. 26

<sup>284</sup> Clark, "Pakistan's Zakat and Ushr System".p. 135

Perhaps *zakat* was not an important part of the strategy of the Liaqat Ali government as the pattern of economic expenditure during his office was such that poverty alleviation and social spending were at the lower end of the state's development priorities. This was reflected in the economic strategy of the Planning Commission of Pakistan. Even after Liaqat Ali's assassination one can detect the pattern of development expenditure in the First Five-Year Plan of 1955-60 (the public sector outlays), where table 3.1 and 3.2 below reveal that the total development expenditure was 6% of the GDP, with social spending at about only 6.7% of total development expenditure. Additionally, social welfare was the smallest heading within social spending.

In Pakistan, the first phase of economic development started with import-substituting industrialisation. As can be observed from table 3.2, the third highest priority of government spending was industry, with 15.3% of total expenditure for 1955-60. This was because large-scale industry was in effect non-existent in the areas that made up Pakistan. These territories had mostly performed an auxiliary function in the economy of united India, supplying raw materials to the industries located in the pre-Partition Indian territories. After Partition the industrial sector of the economy was boosted by providing heavy tariff protection and tax exemptions for infant industries. The government neglected the agriculture sector. This sector was to provide cheap raw material for the industrial sector and subsidised food for the urban consumer. Perpetual mistreatment of the agricultural sector led to its stagnation while the government's intense ambition to industrialise started having counter-effects on the economy by the 1960s.<sup>285</sup> Such ambitious industrial policies also had negative impact on the welfare of the masses, in the face of the low level of resources reserved for social welfare. Additionally, the post-Partition situation

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<sup>285</sup> O. Noman, *The Political Economy of Pakistan 1947-85* (London: KPI, 1988), p. 16

was such that resources were stretched to the limit as the government had to tend to the constant influx of millions of refugees from India. The government had to build economic and physical infrastructure from scratch in the majority of cases. This is reflected in table 3.2 and graph 3.1, which show that most of the government's development spending was reserved for economic and physical infrastructure.

**Table 3.1**

<b>Development Expenditure Public Sector Outlays (Millions Rupees)</b>					
<b>Sector</b>	<b>First Plan (1955-60)</b>	<b>Second Plan (1960-65)</b>	<b>Third Plan (1965-70)</b>	<b>*Non-Plan Period (1970-75)</b>	<b>Fifth Plan (1978-83)</b>
Agriculture	461	902	1377	6492	14860
Water	969	4597	4513	12810	15770
Energy	607	1273	1760	13841	38830
Industry	742	478	786	11294	25400
Minerals	124	94	271	492	400
Transport and Communications	1080	1595	2521	15653	35210
Physical planning and housing	505	957	698	5687	9000
<b>Social Spending</b>	<b>327</b>	<b>702</b>	<b>1054</b>	<b>6783</b>	<b>11030</b>
Education and manpower	232	463	563	3442	5640
Health	76	174	281	2381	4580
Population welfare programme <sup>^</sup>	0	9	145	820	600
Social Welfare <sup>#</sup>	19	56	65	140	210
Others	48	8	224	2492	2110
<b>TOTAL Development expenditures</b>	<b>4863</b>	<b>10606</b>	<b>13204</b>	<b>75544</b>	<b>152610</b>
<b>% of GDP</b>	<b>5.9</b>	<b>8.2</b>	<b>6.5</b>	<b>10.8</b>	<b>12.6</b>

Source: Second Five Year Plan 1960-65, Third Five Year Plan 1965-70, Sixth Five Year Plan 1983-88

\* The Fourth Five-Year Plan (1970-75) was abandoned during the time when East Pakistan became Bangladesh.

<sup>^</sup>Family Welfare Centre, Reproductive Health Services & Family Health Manpower Development Projects, Training of non-clinical staff & related population education.

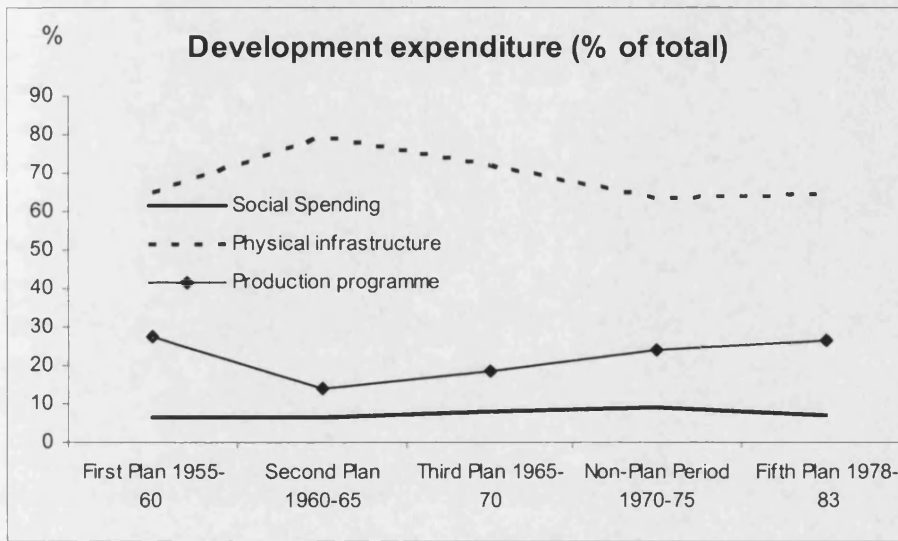
<sup>#</sup> Rehabilitation, Women and Child Welfare Services, Promotion of Voluntary Welfare Services & Miscellaneous Social Services

**Table 3.2**

<b>Structure of Development Expenditure (In percentage terms)</b>					
<b>Sector</b>	<b>First Plan 1955-60</b>	<b>Second Plan 1960-65</b>	<b>Third Plan 1965-70</b>	<b>Non-Plan Period 1970-75</b>	<b>Fifth Plan 1978-83</b>
<b>Agriculture</b>	9.5	8.5	10.4	8.6	9.7
<b>Water</b>	19.9	43.3	34.2	17.0	10.3
<b>Energy</b>	12.5	12.0	13.3	18.3	25.4
<b>Industry</b>	15.3	4.5	6.0	15.0	16.6
<b>Minerals</b>	2.5	0.9	2.1	0.7	0.3
<b>Transport and Communications</b>	22.2	15.0	19.1	20.7	23.1
<b>Physical planning and housing</b>	10.4	9.0	5.3	7.5	5.9
<b>Social Spending</b>	6.7	6.6	8.0	9.0	7.2
Education and manpower	4.8	4.4	4.3	4.6	3.7
Health	1.6	1.6	2.1	3.2	3.0
Population welfare programme	-	0.1	1.1	1.1	0.4
Social Welfare	0.4	0.5	0.5	0.2	0.1
<b>Others</b>	1.0	0.1	1.7	3.3	1.4
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

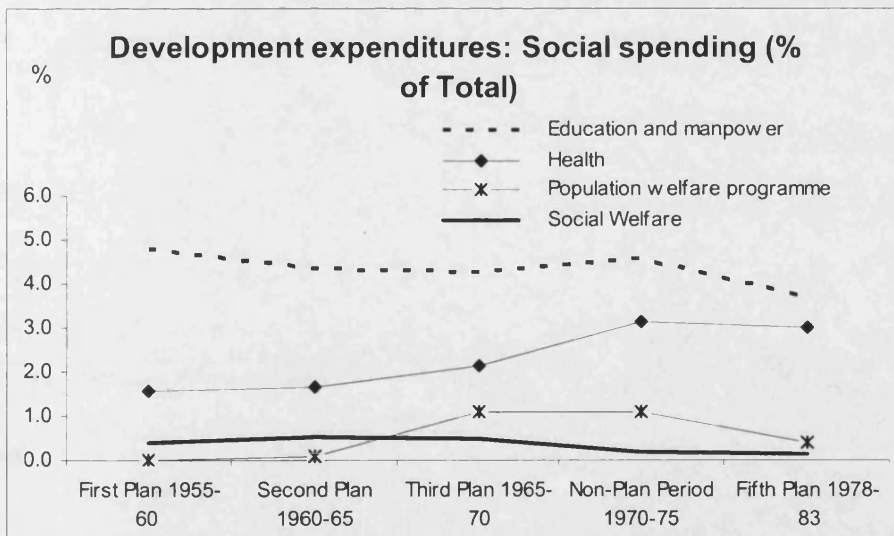
Source: Author's own calculations derived from table 3.1

**Graph 3.1**



Source: Derived from table 3.2. Agriculture, industry and minerals are clustered together into production programmes, and transport and communication, physical housing and planning, water and energy into physical infrastructure.

**Graph 3.2**



Source: Derived from table 3.2.

The government under the economic circumstances described above did not possess the resources to create an elaborate system of *zakat* collection and disbursement, as the entire



economy was still in its formative years. So even if the clerics had pressured Liaqat Ali's government to set up this institution fundamental to Islam, he had good reasons for not heeding the *Ulema*'s demands.

### **Zakat and the First Constitution of Pakistan**

By 1956 Pakistan had its first constitution. The controversy surrounding the nature of Islam in Pakistan, and the struggle between *Ulema* from Jamaat-i-Islami and Jamiat-i-Ulema-i-Islam on the one hand and the modernists on the other still persisted. The Objectives Resolution was kept as a preamble to the constitution with its Islamic connotations. The Islamic provisions of the constitution were contained in the Directives Principles of the State Policy and not enforceable in courts. The state was to endeavour:

- a) To provide facilities to the Muslims to enable them to understand the meaning of life according to the holy *Quran* and *Sunnah*
- b) To promote unity and observance of Islamic moral standards and to secure the proper organisation of *zakat*.

The question of *zakat* was transferred from the Federal to the Provincial governments and remained dormant there for some time. This transfer meant that in a highly centralised polity, *zakat* was not important enough to occupy a niche at the federal level. Article 21 of the constitution provided that no person should be compelled to pay any special tax, the proceeds of which were to be spent for the propagation of any religion other than his own.<sup>286</sup> This appeared to mean that no single interpretation of Islam was to be enforced upon the Muslims of Pakistan. Islam was not to be enforced as the state religion of Pakistan

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<sup>286</sup> Iqbal, *Islamisation of Pakistan*.p. 69

and the constitution did little to settle the issue of a desirable role for Islam in a modern state.<sup>287</sup>

Therefore, even though the modernists did not possess a patent non-religious agenda for Pakistan, they very much kept Pakistan's government and society secular, free of any single interpretation of the *Shariah*, and in doing so managed to keep Islamisation of Pakistan's polity and economy dormant.

### *Islam and Zakat under the First Martial Law*

On 7 October 1958, Iskandar Mirza (a retired Major-General from the army who was the fourth Head of State and the first President under the 1956 Constitution)<sup>288</sup> imposed Martial Law and appointed General Mohammad Ayub Khan as the Chief Martial Law Administrator and Commander-in-Chief of the Armed Forces.<sup>289</sup> Just three weeks after his appointment, Ayub Khan dismissed Iskandar Mirza in a military coup and assumed the Presidency of the country.

Ayub Khan's regime was admittedly secular however, he was not able to alienate Islam from Pakistan and had to accept its mass-mobilising appeal. His government thus sought to

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<sup>287</sup> Fazal-ur-Rehman, "Islam and the Constitutional Problem of Pakistan," *Studia Islamica* Vol. XXXII, no. 4 (1970).pp. 275-287. Also see G. W. Choudhury, *Constitutional Development in Pakistan* (London-Harlow: Longman Group Ltd., 1969). pp. 103-4. After the assassination of Liaqat Ali Khan in 1951, the civil service and military had emerged as the dominant coalition in power till 1958. These institutions were thoroughly secular, reflecting the colonial attitudes of governance.

<sup>288</sup> Choudhury, *Constitutional Development in Pakistan*. Under the 1956 Constitution the post of the Governor General had been dissolved and the presidency was created. Like Liaqat Ali, Iskandar Mirza was also an avowed secularist who poured water over the hopes of the *Ulema* by saying that 'we cannot run wild on Islam'. p. 105.

<sup>289</sup> Pakistan's first general elections were to be held in March 1959. Iskandar Mirza became increasingly agitated and worried about his own power as elections meant universal adult franchise, which would bring not only a whole new generation of politicians into power but would most probably empower East Pakistan's Awami League and its leader Husseyn Suhrawardy; A. Salim, *Iskandar Mirza: Rise and Fall of a President* (Lahore: Gora Publishers, 1997). Also see, R. V. Weekes, *Pakistan: Birth and Growth of a Muslim Nation* (Toronto: D. Van Nostrand, 1964).

channel Islamic power in the service of the state to meet his ambitions of economic development on capitalist lines rather than through the economic ideals of Islam.<sup>290</sup>

During his rule the State procured the right of interpreting Islam from the Jamaat-i-Islami (led by Mawdudi, see Chapter One) who claimed to be the flag-bearers of what Islam is and how it should be followed. Ayub established the Institute of Islamic Research in 1960 and the Advisory Council for Islamic Ideology in 1962. These institutions were supposed to reinterpret Islam according to modernist lines and were meant to justify Ayub's policies. The conservative clerics, mostly from the politically active Jamaat-i-Islami and Jamiat-i-Ulema-i-Islam, were excluded from this Council. The two parties protested against the composition of the Council as they felt that their views were not represented. The pressure from these factions reached such heights that some of the modernist elements in the Council had to resign.<sup>291</sup>

In pursuing its control over Islam's manifestation in Pakistan, the government took over the endowments of mosques and shrines, which provided social services to and thus affected the lives of the lower economic echelon of society. Ayub's government portrayed Islam as a progressive influence for the labour force and used Islam's positive ethics of work and economic wellbeing to launch Pakistan into its industrial development era. By harnessing Islam and reinterpreting it to match his economic and political ambition Ayub extended state power and prolonged his political longevity. However, he made no effort to Islamise Pakistan's economy and society along orthodox lines.<sup>292</sup>

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<sup>290</sup> Nasr, *Islamic Leviathan*.p. 61. Also see M. H. Khan, "The Political Economy of Industrial Policy in Pakistan 1947-71," in *Department of Economics Working Paper* (London: SOAS, 1999). p. 21

<sup>291</sup> Malik, *Colonialization of Islam*.p. 35

<sup>292</sup> Nasr, *Islamic Leviathan*.pp. 61-63

Ayub abrogated the 1956 Constitution and introduced a new one in May 1962 to reinforce his authority in the absence of martial law. His constitution omitted the word 'Islamic' from the name of the state. There were, however, references in the Directive Principles to the *Quran* and *Sunnah* and the Islamic way of life, but the responsibility of giving effect to laws relating to the Islamic way of life was taken up by the government, whose authority was to be indisputable.<sup>293</sup>

The conservatives created an outcry for the restitution of Islamic features of the 1956 Constitution.<sup>294</sup> It seems that Ayub realised that removing Islam as the basis of the state contradicted the declared purpose of the creation of Pakistan, and he became increasingly aware of the dangers of abandoning Islam as a state religion. He thus restored the Islamic provisions in 1963 through constitutional amendments. Even then, it appears that the idea of imposing one version of religion on the rest of the country (considering the divergence in the Islamic sects), did not appeal to Ayub. Therefore, like the 1956 Constitution, the 1962 Constitution also did not make Islam the state religion of Pakistan and left the interpretation of the *Quran* and *Sunnah* to the respective Islamic sects.

In 1959, *zakat* again received the attention of the Federal Government. It decided that *zakat* was to be collected at the provincial and local level by the Union Councils<sup>295</sup> on a voluntary

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<sup>293</sup> Ibid. See also Government of Pakistan, *The Constitution of the Republic of Pakistan* (Karachi: Manager of Publications, Government of Pakistan Press, 1962).

<sup>294</sup> L. D. Hayes, *Politics in Pakistan The Struggle for Legitimacy* (Boulder: Westview Press, Inc., 1984).p. 70

<sup>295</sup> In 1959 Ayub Khan introduced the concept of basic democracy under the Basic Democracies Order. This was an attempt to initiate a grass-roots level democratic system. The system of Basic Democracies was initially a five-tier arrangement. They were: (i) union councils (rural areas), town and union committees (urban areas); (ii) thana councils (East Pakistan), tehsil councils (West Pakistan); (iii) district councils; (iv) divisional councils; (v) provincial development advisory council. At the base of the system was the union council, which consisted of one chairman and usually about 15 members. It had both elected and nominated

basis, and 90% of the collection was to be spent in the local area. There was no elaborate body for collection and disbursement. In 1961 the Federal Government created a cell in the Finance Ministry to organise *zakat* activities. A proposal was presented to Ayub's cabinet to set up a small organisation at the central level for policy-making and the publicising of *zakat*, but the idea was rejected.<sup>296</sup>

Interestingly, the 1962 Constitution still held that the proper organisation of *zakat* should be ensured. However, the government shifted most of the responsibility for monitoring *zakat* collections from the provincial governments to the district authorities. In 1966 the conservative factions of the Advisory Council of the Islamic Ideology again started pushing for the Islamisation of the fiscal system, i.e. the imposition of *zakat*. This pressure was eased when the modernists, whom Ayub had put in charge of the Council, got into a disagreement with the orthodox over the incidence of *zakat* and the *zakat* rate. The orthodox found the views of Fazlur Rahman (a modernist Islamist and Ayub's Islamic Advisor) so upsetting that they distanced themselves from the Council.<sup>297</sup> As a result of this internal strife, Ayub managed to avoid a role for *zakat* at the national level. However, in 1969, the Council of Islamic Ideology again proposed the establishment of a separate ministry for the collection and distribution of *zakat*. Once again a proposal forwarding the formalisation of *zakat* was ignored by the central government.<sup>298</sup>

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members. Two-thirds of the members were elected representatives and one-third consisted of non-official members nominated by the government. The members of the council were elected by the people from their respective unions on the basis of universal adult franchise. The chairman of the council was elected by the members from amongst themselves. The elected representatives of the union council were called basic democrats. See, L. Ziring, *Pakistan in the Twentieth Century A Political History* (Karachi: Oxford University Press, 1997).pp. 256-7

<sup>296</sup> Nazir, *Zakat Law*.pp. 27-8

<sup>297</sup> F. Rahman, "Some Islamic Issues in the Ayyub Khan Era," in *Essays on Islamic Civilisation*, ed. Donald P. Little (Leiden: E. J. Brill, 1976).p. 295

<sup>298</sup> Malik, *Colonialization of Islam*.p. 87

Ayub's era saw sharp industrial progress. However, the 1958-68 'development decade' went down in history essentially as a decade of exploitation and deliberate promotion of inequality between classes and regions, with just 22 big industrial families amassing most of the wealth.<sup>299</sup> Statistically, Pakistan's Second Five-Year Plan (1960-1965), which was implemented during Ayub's regime, showed significant success, but the human quality index suffered as a result.<sup>300</sup> This was demonstrated by the fact that the government's development spending was only 8.2% of GDP (see table 3.1). The doctrine underlying Ayub's industrialisation policy was that of 'functional inequality', which meant the toleration of 'some initial growth in income inequalities to reach high levels of saving and investment'.<sup>301</sup> Social spending remained more or less the same as during the previous Five-Year Plan of 1955-60, at 6.6% of total development expenditure (see table 3.1 and 3.2).

Due to the growing awareness of a government policy that had led to a decline in real wages and industrial concentration among urban groups, Ayub's regime faced urban militancy. In spite of rapid growth, Pakistan continued to be one of the poorest and most illiterate societies. The Planning Commission failed to admit that its strategy implied that because growth was a more important policy goal than income distribution, the poor had to remain poor for a long time so that growth might continue at an accelerating pace.<sup>302</sup>

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<sup>299</sup> Ghazali, "Illusions and Reality." Chapter IV, p. 2

<sup>300</sup> L. Ziring, *Pakistan : The Enigma of Political Development* (Canon House Folkestone Kent Wm Dawson & Sons Ltd., 1980).p. 93

<sup>301</sup> M.H. Khan, "The Political Economy of Industrial Policy in Pakistan 1947-71."p. 23

<sup>302</sup> K.B. Sayeed, *Politics in Pakistan: the nature and direction of change* (New York: Praeger Publishers, 1980).p. 61

Ayub used Islamic language to justify his economic plans,<sup>303</sup> but his Islam was just a garb to clothe a capitalist form of economic development. The inequality created by his policies led to mass unrest, which paved the way for Islamists to march against him. Due to Ayub's affirmed secular stance on policies and issues of governance, he made no effort to institutionalise any Islamic precept at any level, including the formalisation of *zakat*, even in the face of increasing inequality.

Following this civil and political unrest, Zulficar Ali Bhutto<sup>304</sup> rallied the distressed masses and fostered their support during the 1970 elections. Bhutto's Pakistan People's Party won a landslide victory, especially in areas most affected by Ayub's policies, as he offered a new ideology: an ideology of Islamic Socialism or '*Musaawat*' (equality).

### *Islam and the Bhutto Regime*

In terms of *zakat*, Bhutto's regime has nothing to boast about, but his attempts to exploit Islam were not different from those of his predecessors. He came to power in 1970, raising the slogan of '*roti, kapra aur makaan*' (food, shelter and housing) for all. The ringing declaration of his party was: 'Islam is our faith; democracy is our polity; socialism is our economy; all power to the people.'<sup>305</sup> Bhutto was a secular politician like Ayub Khan, but unlike Ayub's commitment to capitalism, his stance was socialism. Bhutto was also aware that in order to introduce any kind of political or economic order, it would have to be clothed in Islam. Thus, he termed his socialism 'Islamic Socialism'. It is not clear whether

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<sup>303</sup> Ibid, p. 62

<sup>304</sup> In 1958 Bhutto joined the cabinet of President Iskandar Mirza. He emerged on the world stage as leader of Pakistan's delegation to the UN in 1959. He was appointed Foreign Minister in 1963 and remained at that post until his resignation in June 1966. In 1967 he formed the Pakistan People's Party (PPP) to oppose President Ayub Khan's regime. Bhutto launched a nationwide tour of agitation against the military dictatorship.

<sup>305</sup> Sayeed, *Politics in Pakistan*, p. 86

Bhutto used this term to draw parallels with Jinnah, who had used it in his political campaign for the movement for Pakistan decades earlier, as Jinnah did not live long enough to elaborate on what he meant by his Islamic socialist ideas. Bhutto's alliance with Islam did not end there. In 1973 he introduced another constitution. This constitution included all the Islamic provisions of the previous constitutions of 1954 and 1962 and in addition, he took a bold step and declared Islam the state religion of Pakistan and reinvigorated the CII (Council of Islamic Ideology). For Bhutto this was a way of making the politically powerful mainstream *Sunni* religious right feel that Islam was their domain. The 1973 Constitution, with its socialist slant and emphasis on economic justice, included the provision for the collection of *zakat*.

In 1974 the CII ordered a questionnaire prepared by A. I. Qureshi (a former government minister) regarding *zakat's* levy, *nisab* and expenditure. The questionnaire was sent to an undisclosed number of religious scholars specifically asking if it was the responsibility of the government to collect *zakat* and whether the government should compel the people to pay it. It also enquired about the sort of wealth that should be made liable to *zakat*. Responses to the questionnaire were poor (whether in terms of quality or quantity is not known) and therefore the government did not publish a report based on its results. So, for many years *zakat* languished as a concept occasionally discussed by the CII.<sup>306</sup>

Bhutto's economic reforms were populist and favoured the nationalisation of industrial enterprises. The previous wave of capitalism had done much harm to the socio-economic fabric of the country, and thus, Bhutto's nationalisation policy was geared towards capitalising on the wave of sentiment for economic and social reforms. Initially, state

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<sup>306</sup> Clark, "Pakistan's Zakat and Ushr System".p. 138



intervention was motivated by distributional concerns but the second wave of state intervention was conducted on a more ad hoc basis and intervention became a mechanism through which political and economic patronage was distributed.<sup>307</sup> As a result, his nationalisation programme fell short of expectations.

Bhutto also undertook reforms in the agrarian sector by introducing land reforms. The People's Party had played on the symbolism of land reforms as evidence of the party's commitment to 'socialism'. It appears that these reforms were not geared towards altering the character of the agrarian system of Pakistan, as the legislation did not change the rural distribution of power and privilege. The measures reduced the ceiling on ownership by 50%, i.e. down from 500 acres to 250 acres in irrigated areas and from 1000 acres to 500 acres in non-irrigated areas.<sup>308</sup> However, the limits were fixed in terms of the individual rather than families, with the result that many landlords who had already anticipated these reforms managed to get around the limitations on ceilings by transferring land to relatives or trusted tenants.<sup>309</sup> Another reform introduced by Bhutto was security of tenancy, which was once again anticipated by the landlords. Consequently in apprehension, many landlords accelerated tenant evictions, which led to a chaotic situation not foreseen by the government.<sup>310</sup> This reform was of limited practical significance as it lacked an effective enforcement mechanism and was of importance mainly to those tenants already conscious enough and strong enough to question landlords' prerogatives.<sup>311</sup> The reforms proved to be erratic and uncertainty over them led to short-term production losses, which together with

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<sup>307</sup> Noman, *The Political Economy of Pakistan*.p. 96

<sup>308</sup> N. Qasir, *An Investigation into the Political Economy, 1948-1988* (Karachi: Oxford University Press, 1991).p. 90

<sup>309</sup> Ghazali, "Illusions and Reality."Chapter VII, p. 2

<sup>310</sup> Qasir, *Political Economy, 1948-1988*.p. 90

<sup>311</sup> Ghazali, "Illusions and Reality." Chapter VII, p. 2

bad weather for two years out of five during Bhutto's rule led to a decline in per capita agricultural output.<sup>312</sup>

Bhutto's populist strategy, which had provided his party with raised expectations from the masses, also included a promise of jobs for all, but the government's policy of mostly capital-intensive investments prevented this promise from being honoured. An additional problem was the need to absorb a growing labour force that was driven by rapid population growth. In order to keep up employment, the government did set up various labour-intensive industrial projects in rural areas, but due to the shortage of financial resources and inadequate coverage their result was marginal.<sup>313</sup> The lack of funds for popular programmes robbed the Bhutto Government of popular support and it started losing its credibility among the masses it had mobilised against Ayub.

At first glance it seemed that Bhutto's socialist policies made a substantial improvement in development expenditures of the Five-Year Plans, which rose from 6.5 % of GDP in 1965-70 to almost 11% between 1970-75 (see table 3.1). Also, table 3.2 shows that the percentage of social spending went up from 8% to 9%. But if one takes a closer look at the spending pattern, one observes that the share of social welfare in total development expenditure actually went down from 0.5% in the previous years to 0.2% in 1970-75.

Bhutto's appeal to Islam had been designed to win popularity, and like his predecessor he made little effort to implement Islamic policies, or embed Islamic ideology in the policy-making process, and concentrated instead on symbolic measures that were designed to

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<sup>312</sup> Qasir, *Political Economy, 1948-1988*.p. 91

<sup>313</sup> Noman, *The Political Economy of Pakistan*.p. 96

placate Islamists.<sup>314</sup> His socialist policies had no place for serious religious institutionalism. The Islamic apparel of the 1973 Constitution through 'Islamic Socialism' could not keep the major political Islamic factions such as the Jamaat-i-Islami, Nizam-i-Islam and Jamiat-i-Ulema-i-Islam calm for too long. They became frustrated with the Islamic provisions in the constitution as they deemed these to be cosmetic. They started condemning Bhutto's Islamic socialism on the grounds that it had no deep roots in the *Quran* and *Sunnah*. Owing to political events (which are beyond the scope of this thesis and hence will not be discussed here), in addition to Bhutto's blatant manipulation of Islam, an opposition grouping of nine parties called the PNA (Pakistan National Alliance), which included the religious parties such as the Jamaat-i-Islami and Jamiat-i-Ulema-i-Islam, produced a collective outcry against Islamic socialism. Their slogan was *Nizam-e-Mustafa* instead, i.e. they wanted to impose Islam through following the personality of the Prophet. In 1977, Bhutto called for national elections, which he hoped to win. He did win, but the opposition accused him of rigging the vote. Thus in the same year, Bhutto was overthrown in a military coup by his own Chief of Army Staff, General Mohammad Zia-ul-Haq: a man from the junior ranks of the army whom Bhutto had chosen for his lack of political ambition.<sup>315</sup>

Thus until 1977, none of the governments which came to power seriously carried out the 'Islamic Provisions' of the constitution. The following analysis elucidates upon the rationale of Zia's pursuance of Islamisation. The section also explicates how Zia engaged in his agenda of Islamisation, as a consequence of which *zakat* was introduced.

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<sup>314</sup> Nasr, *Islamic Leviathan*. During the last days of his government, in order to appease the political alliance opposing him, he banned various activities such as the consumption of alcohol, gambling, nightclubs, and introduced a holiday on Friday instead of Sunday; p. 80.

<sup>315</sup> K. M. Arif, "Working with Zia: Pakistan's Power Politics 1977-88," *Dawn*, 23rd April 1995.

### 3.2 Islamisation under Zia:

#### Formation of Zia's Government and the Passing of the Zakat and Ushr Ordinance

In July 1977 Zia assumed power, imposed martial law and assured the people of Pakistan that his takeover was a '90-day operation' and that he had no political ambitions. He also stated that, 'the primary aim before the interim regime was the restoration of democracy in the country.' However, four months later he introduced a religious slant to his statement and changed it to, 'Allah had granted him and his colleagues an opportunity to keep law and order in the country and to cleanse the political body of the country, and unless this task was accomplished it would be futile to hold elections.' In view of this, a Martial Law Order was issued on 28 February 1978 debarring all politicians from political activities, and Pakistan witnessed the end of party politics and democratic debate during Zia's era.<sup>316</sup>

In the meantime, in September 1977 Zia revived the Council of Islamic Ideology (CII), the purpose of which was to formulate recommendations for the structure of an Islamic governmental system in strict conformity with the *Shariah*. The Council was enthusiastic to the cause of Islamisation and was, for the most part, instrumental in Zia's Islamisation process. Most of its members belonged to the Jamaat-i-Islami and represented Islam's extreme orthodox viewpoints<sup>317</sup> (there will be a detailed account of the CII later in this chapter). In November of that year Zia ordered the CII to conduct detailed research and make recommendations regarding the imposition of *zakat* in Pakistan. With this view the CII selected a technocratic panel of 15 economists and bankers to make recommendations and honour Zia's keen desire to impose *zakat*. On 5 March 1978, the panel submitted a

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<sup>316</sup> Ghazali, "Illusions and Reality." Chapter VIII, p. 1

<sup>317</sup> K. Siddiqui, *Issues in the Islamic Movement* (London: The Open Press Limited, 1982), p. 50

report on *zakat* to the CII, which forwarded the report to Zia after making additional recommendations.

This report began by considering the historical aspects of the introduction and working of *zakat* during the time of the Prophet and his four successors, i.e. the Pious Caliphs. It then considered the prospective incidence of *zakat* in relation to the social and economic scenario of Pakistan, the administrative implications of collection and disbursement of *zakat* and lastly, it assessed the financial implications for the government in introducing *zakat*.<sup>318</sup> The report produced two major outcomes: one was the need to create a skeleton organisational structure for *zakat* collection and disbursement and the other was the need to restructure the income tax and the land revenue system so that the introduction of *zakat* would not overburden the taxpayers.<sup>319</sup> This report was to form the basis of the institutionalisation of *zakat*.

Additionally, Zia invited Professor Khursheed Ahmed, a well-known Islamic economist, to head the Planning Commission.<sup>320</sup> Khursheed Ahmed belonged to the Jamaat-i-Islami and was a keen supporter of Islamisation. Khursheed Ahmed joined Zia's cabinet on 30 August 1978. The Planning Commission, in co-operation with the Ministry of Religious Affairs and the CII, prepared the entire groundwork for the introduction of the *zakat*.

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<sup>318</sup> islami nazriati council, "islami nazriati council ki salana report," ed. islami nazriati council (Islamabad: huqumat-e-pakistan, 1977-78).p. 159

<sup>319</sup> Ibid.p. 160. Apparently nobody knows the whereabouts of this report. Where Zia pursued the institutionalisation of *zakat*, the recommendation for the reforms of income tax and land revenue were not implemented.

<sup>320</sup> A. Hussain, *Elite Politics in an Ideological State: the case of Pakistan* (Kent: Wm Dawson & Sons Ltd, 1979).p. 170. In June 1953 the government of Pakistan set up a Planning Board, which later gained the status of the National Planning Commission and became the highest planning authority in Pakistan. The aim of the Commission was to prepare the Five-Year Plans for every sector in the country. See S Rehmatullah, *Social Welfare in Pakistan* (Karachi: Oxford University Press, 2002).

The Planning Commission formed a sub-committee headed by its secretary, H. U. Beg; the sub-committee also included the head of the CII, Azhar Cheema, and another of its members, Maulana Taqi Usmani. This sub-committee produced a draft of the *zakat* policy, which was finalised by the Planning Commission after review. Their finalised draft was sent to the Law Ministry for vetting and was eventually sent to the Finance Ministry for approval. The Ministry of Religious Affairs played the role of coordinating *zakat*-related activities among the various government departments involved.<sup>321</sup>

Meanwhile, in 1978, the PNA (Pakistan National Alliance), including the Jamaat-i-Islami, agreed to join Zia's 'civilian cabinet'.<sup>322</sup> Zia did not include anyone from the military in his cabinet so as not to give the impression that it was a militarised regime, although behind closed doors ultimate power still remained with the military.<sup>323</sup> Thus, on 22 August 1978, the swearing in of Zia's Federal Cabinet took place. The cabinet consisted of:

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<sup>321</sup> K. Ahmed, Interview, 19<sup>th</sup> April 2003. Khursheed Ahmed resigned in 1979 when he realised that Zia's Islamisation was merely a way to keep power and increase authority and that he was not truly committed to the cause of Islamisation.

<sup>322</sup> Crescent International, "Zia Reins Ulama Behind 'Islamisation' Farce," *Crescent International* (1980).p. 50. Also, Crescent International, "Zia Secularism Includes Islam," *Crescent International* (1981). The Jamaat pulled out soon after the execution of Zulficar Ali Bhutto in April 1979.

<sup>323</sup> Hussain, *Politics in an Ideological State*.p. 170. On 5 July 1978 the first Federal Cabinet was formed. In addition to containing the bureaucratic, landowning, professional and the industrial elite, it had also included four members of the military elite. However, the cabinet that was formed on 22 August 1978 included no military personnel but did include five members of the religious elite; pp. 169-71.

### Zia's Federal Cabinet

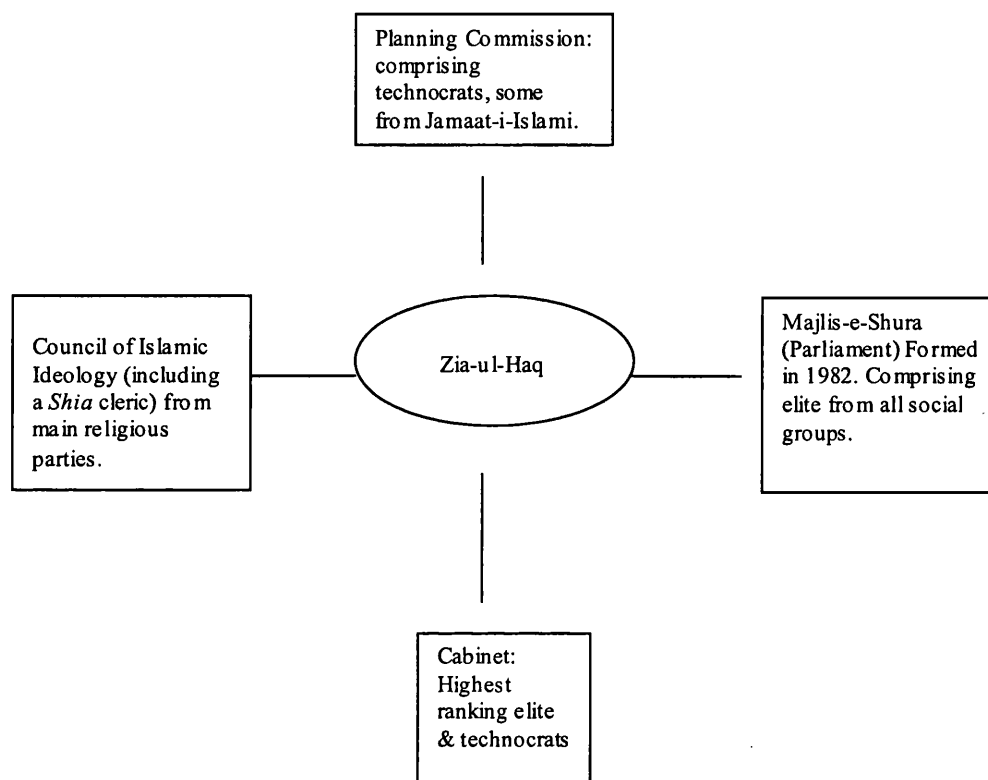
Elite Group	Number of People
Landowning Elite	7
Professional Elite	5
Industrial Elite	3
Religious Elite	3
Bureaucratic Elite	1

Source: Hussain, *Elite Politics*, 1979. This structure excludes Ministers of State.

The following is a simple diagram of Zia's Government's structure:

**Figure 3.1**

**Zia's Government's Structure:**



Source: Author

Although Zia had not as yet declared his government to be representing an Islamic state, the religious allusion that he introduced in his speech quoted earlier revealed his intentions, on the basis of which he was able to delay elections. His religious slant also granted him the ease and the legitimacy he thought he needed to choose the members of his cabinet, who, for their part, readily allied with him to 'cleanse the political body of the country'. Zia had to rely on an alliance with the powerful elite to gain the support of what they represented, i.e. the political strength of the landowning elite to counteract political opposition, the



economic strength of the industrial elite, the technocratic skills of the professional elite, the administrative skills of the bureaucratic elite and finally the support of the religious elite, not only for their religious expertise in Islamising Pakistan, but also to counter the threat of the socialist ideology of the Pakistan People's Party. The religious elite also benefited from Zia's takeover in the shape of the economic power that was bestowed upon them via important economic posts, for example appointments in the Planning Commission.<sup>324</sup>

The structure of Zia's government introduced another era of oligarchic rule, which was to strengthen under the umbrella of the Islamic polity with its process of Islamisation. Some maintain that the religious and the feudal elite of the Muslim societies attempted to maintain the *status quo* of semi-feudal and neo-colonial structures through the political strategies of Islamisation schemes.<sup>325</sup>

On 2 December 1978, Zia announced the formal enforcement of the Islamic system in Pakistan. In a nationwide address, Zia accused politicians of exploiting the name of Islam and declared that the present government was loyal to its public commitment to enforce '*Nizam-e-Islam*' (Islamic system). Zia had replaced a popularly elected government; and Islamisation was an attempt to fill the political vacuum that Zia himself had created. Islam was needed to strengthen his claim to political legitimacy and fortify political power through the Islamic political structure. Importantly, Islam was the *raison d'etre* of Pakistan and the move of adopting the religious rhetoric of Islamising Pakistan served to reinforce the legitimacy of his undemocratic and unrepresentative regime.

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<sup>324</sup> Ibid.p. 170

<sup>325</sup> Z. Haque, "Islam and Economics in Pakistan: Critical Perspective," *The Pakistan Development Review* 34, no. 4 Part II (1995),p. 835

All this time the spirit to impose the *zakat* was in full force, and on 10 February 1979, a Draft *Zakat* and *Ushr* Order was issued with Zia's approval and with the joint effort of the Planning Commission, Ministry of Law, Ministry of Religious Affairs, the CII and Ministry of Finance, to gather the opinion of the general public. The public were to submit their opinions to the Ministry of Finance by 13 April 1979.<sup>326</sup> It would have been interesting to assess the legitimacy of this poll, but due to lack of sources, it is not possible to know how the poll was conducted or what responses were obtained. The Ministry of Finance made a report based on its interpretation of the poll and sent a copy to the CII for its perusal.<sup>327</sup>

In the meantime, the Ministry of Finance, with orders from Zia, formed a committee that drafted a temporary *Zakat* Ordinance. This was published on 24 June 1979 as the *Zakat* and *Ushr* (Organisation) Ordinance. Under this (Organisation) Ordinance the Central *Zakat* Council (CZC) and the Provincial *Zakat* Council (PZC) were established.

The interesting aspect of this situation was that the CII, the organisation revived for the Islamisation of the country, found itself totally excluded from the *zakat* policy-making process in the final stages of the promulgation of the *Zakat* Ordinance. Zia was to discuss this Ordinance in his cabinet on 30 June 1979. The CII received this draft only two days before the cabinet meeting and therefore had no opportunity to comment on it. Apparently, the Ministry of Finance, with Zia's approval, had drafted the *Zakat* and *Ushr* (Organisational) Ordinance with substantial differences to the Draft *Zakat* and *Ushr* Order

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<sup>326</sup> islami nazriati council, "islami nazriati council ki salana report," ed. islami nazriati council (Islamabad: huqumat-e-pakistan, 1978-79).p. 102

<sup>327</sup> This report is not available.

that had been approved by the CII.<sup>328</sup> Finally, on 20 June 1980, the *Zakat and Ushr* Ordinance No. XVIII was passed.<sup>329</sup>

Chapter Two showed that the Islamic state wields immense political and economic power under the Islamic political ideology. So it was definitely in Zia's interest to want to adhere to this ideology, considering that it was an integral part of Pakistan's ideology as well. Thus in March 1981, Zia promulgated a 'Provisional Constitutional Order', which granted him unfettered arbitrary power.<sup>330</sup> Zia's Law Advisor stated clearly that from the coup onwards, Zia's main concern was to introduce the Islamic system. Zia's opinion on the matter of dictatorship versus democracy was that 'Muslims believed in one God, one Prophet and one Book, and their mentality is that they should be ruled by one man'.<sup>331</sup> By the promulgation of this 'Provisional Constitutional Order', Zia secured his constitutional position as *Ameer-ul-Momeneen* (defender of the Islamic faith).

Then, on 19 December 1984, to secure a seal of popular consent for his rule, a referendum was held. This referendum was to popularise the Islamisation policies of Zia's regime. Zia held that if people responded in the affirmative to his Islamisation process he would consider it as an endorsement of his rule for the next five years. The question posed was: 'Do you endorse the process initiated by General Mohammed Zia-ul-Haq, the President of Pakistan, for bringing the laws of Pakistan into conformity with the injunctions of Islam as laid down in the Holy *Quran* and *Sunnah* of the Holy Prophet (peace be upon him), and for

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<sup>328</sup> islami nazriati council, "islami nazriati council ki salana report (1978-79)."p. 102

<sup>329</sup> Directorate of Films and Publications, "Zakat and Ushr by Mohammad Zia-ul-Haq," (Islamabad Government of Pakistan: 1980). *Zakat and Ushr* (Organisational) Ordinance was repealed. Nazir, *Zakat Law*.p. 58

<sup>330</sup> E. Mortimer, *Faith and Power: The Politics of Islam* (London: Faber, 1982).p. 222

<sup>331</sup> W. L. Ritcher, "The Political Dynamics of Islamic Resurgence in Pakistan," *Asian Survey* 19, no. 6 (1979),pp. 555-556

the preservation of the Islamic Ideology of Pakistan, the continuation and consolidation of that process, and for smooth and orderly transfer of power to the elected representatives of the people?'<sup>332</sup> It was a cleverly articulated question, offering the people of Pakistan a tough choice. The people could not deny Islam and refute the Prophet's message, but at the same time, they had no desire to participate in a sham referendum. The turnout was very low, indicating the popular apathy towards the Zia Government. The official results put the turnout at 62% (even the national election had not seen such a high turnout) while opponents and sceptics claimed that it was barely 5%.<sup>333</sup> It was not as if the people's decision to restrain from participating in the referendum had any bearing on Zia's practices and policies, as he had not gained power by popular consent in any case.

The referendum endorsed Zia's rule for another five years. He had a clear agenda ahead of him: Pakistan was going to be an Islamic state as perceived and interpreted by the hardliners and orthodox Islamic elements, and Zia was going to be the *Amir* of the state and amass the political power that came with the title (See Chapter Two for the power of the Islamic State).

It seems that Zia's primary concern after seizing power was to endorse himself as the Islamic ruler of the Islamic Republic of Pakistan (considering the political advantage that could be secured through the Islamic political authority). It can be supposed that he felt obliged to pursue the goals (or at least the rhetoric) of providing justice, welfare and eradicating poverty from Pakistani society (this being the foremost duty of the Islamic

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<sup>332</sup> Ghazali, "Illusions and Reality." Chapter VIII, p. 2

<sup>333</sup> I. N. Ali, "HOWZZAT! "With the referendum around the corner, how is Pakistan's President Musharraf faring?"" *Probe News Magazine* (2002). See also R. A. Syed, *Pakistan on Road to Islamic Democracy Referendum 1984* (Islamabad: Historical Research Institute, 1985).p. 129

state), thus the introduction of *zakat*. Some believe that he paraded the *Zakat* Ordinance as proof of his regime's commitment to Islam.<sup>334</sup> However, the imposition of *zakat* had potentially huge financial implications for the poor (where 31% of poor households were living below the poverty line in 1979),<sup>335</sup> and thus had the apparent potential of winning the approval of the poor. Introducing *zakat* was a way for the state to manifest to the public its deliberate intervention to reallocate resources in favour of the poor and to magnify its welfare objectives. It had the potential of being extremely important in terms of winning political support for Zia's regime, where the poor gained from the disbursements and the wealthy lost little due to the exemptions.

#### Zakat Administration

An elaborate hierarchical structure was created for *zakat*'s administration forming a whole new order of organisations with a vast network of officials.<sup>336</sup> The Federal Government (after the declaration of the *Zakat* Ordinance) established a Central *Zakat* Council (CZC), the duty of which was to provide policy guidelines, superintendence and control over matters relating to *zakat* and the *Zakat* Fund. It did not, however, decide theological issues relating to the *zakat* as they were under the domain of the CII.<sup>337</sup>

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<sup>334</sup> Crescent International, "Zia Reins Ulama Behind 'Islamisation' Farce." p. 51

<sup>335</sup> A. R. Kemal, "Poverty in Pakistan: Trends and Causes," in *Towards Pro-Poor Growth Policies in Pakistan* (Islamabad: United Nations System in Pakistan, 2003).p. 37

<sup>336</sup> Tanzil-ur-Rehman, "Introduction of Zakat in Pakistan", p. 42

<sup>337</sup> Clark, "Pakistan's Zakat and Ushr System".pp. 172-3

## Structure of Zakat Administration

		<b>Zakat Administration</b>		
Administrator General		<b>Central Zakat Council</b>		Secretary Govt. of Pakistan Ministry of Religious Affairs
Chairman (Judge of the Supreme Court)	One member from each province (nominated by the President)	4 members nominated by the President (including 3 Ulema)	Chief Administrator (from each province)	Secretary Govt. of Pakistan Ministry of Finance
		↓		
Chief Administrator		<b>Provincial Zakat Council (for each 4 provinces)</b>		
Chairman (Judge of the High Court)	5 persons nominated by the Governor	Secretary of the Provincial Government Department of Finance	Secretary of the Provincial Government Local Government Department	Secretary of the Provincial Government Social Welfare Department
		↓		
		<b>District Zakat Committee (for each District)</b>		
	Chairman (elected by the Provincial Zakat Council)	Deputy Commissioner of the district	5 members (1 from each sub-division)	
		↓		
		<b>Sub-Divisional Zakat Committee (for each sub-division)</b>		
	Chairman (elected by the Zakat Sub-Divisional Committee members)	Assistant Commissioner	6 members (elected by the chairmen of the Local Zakat Committees within a sub-division)	
		↓		
		<b>Local Zakat Committee</b>		
	Chairman (elected by the members of the Local Zakat Committee)		7 members (elected or selected by the Muslims of a locality)	

Source: Author

The Council consisted of 16 members, eight of whom were non-official members and eight were official members.

- a) The Council was chaired by a Judge of the Supreme Court of Pakistan (whose job was to appoint committees and to control their agenda) nominated by the President in consultation with the Chief Justice of Pakistan.
- b) The Council also included four members, including three *Ulema* (non-official) to be nominated by the President in consultation with the CII.
- c) Additionally, there was the Secretary of Ministry of Finance (official).
- d) Secretary of the Ministry of Religious Affairs (official).
- e) Administrator General of *Zakat* (also appointed by the President). The Administrator General *Zakat* was to serve as a Secretary to the CZC as an official member.
- f) Four Chief *Zakat* Administrators from the four Provinces (official). The Chief Administrators of the provinces were selected by the Governor of the respective Provinces who were themselves again appointed by the President.
- g) One person from each Province to be appointed by the President.<sup>338</sup>

The CZC members were to hold office for a period of three years after which they were eligible for re-appointment.<sup>339</sup> The CZC is a voluntary organisation.<sup>340</sup>

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<sup>338</sup> Ibid.p. 172 & Tanzil-ur-Rehman, "Introduction of Zakat in Pakistan", p. 42. Butt, "Institutional Framework of Zakah."p. 380. Nazir, *Zakat Law*.p. 168. On 30 June 1990, the *Zakat* and *Ushr* Ordinance was amended to include two female members at all the *zakat* tiers i.e. in the CZC, the PZCs, DZCs and the LZCs.

<sup>339</sup> *Zakat and Ushr Ordinance No. XVIII of 1980*, No. XVIII, (20th June).p. 19

<sup>340</sup> Clark, "Pakistan's Zakat and Ushr System".p. 193

Interestingly, on 30 June 1989, a year after the death of Zia and after democratic rule was restored in Pakistan, the *Zakat* Ordinance was amended. The amendment fiercely curtailed the powers of the CZC (Section 4.3 in Chapter Four will comment on the political backdrop in which these amendments took place). The *zakat* system was federalised, i.e. the administrative expenditure of the CZC and CZA, PZC and PZA, the DZC and the TZC was made the sole responsibility of the Federal Government. In the original law the administrative expenditure of the provincial, district and sub-district tiers of the *zakat* administration were the responsibility of the respective provincial governments. Additionally, the CZC now had to seek prior approval from the Federal Government for releases from the Central *Zakat* Fund (CZF) or to make changes to the *zakat* rules. Previously, the CZC had the power to make rules without recourse to the Federal Government.<sup>341</sup>

Connected to the CZC was the Central *Zakat* Administration (CZA) with its professional staff, headed by the Administrator General who was selected by the President and whose duty was to serve as a secretary to the CZC. He was assisted in his job by 13 professional staff. It was the duty of the Administrator General to disseminate policy and to monitor its implementation and co-ordinate between the *zakat* system and other ministries at the national level.<sup>342</sup>

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<sup>341</sup> Nazir, *Zakat Law*. However, these amendments were annulled in June 1991 only to be reinstated in 1994, and annulled again in 1997, pp. 162-3.

<sup>342</sup> Clark, "Pakistan's Zakat and Ushr System". p. 192



The Provincial *Zakat* Councils (PZC) consisted of 10 members. They followed the policies set forth by the CZC and disbursed *zakat* Funds to the Local *Zakat* Committees and monitored the affairs of the District, Sub-Divisional and Local *Zakat* Committees.<sup>343</sup>

The Council had:

- a) Chairman who was a judge of the respective Provincial High Court. He was appointed by the Governor of the Province in consultation with the Chief Justice of the High Court
- b) Five more members selected by the Governor, three of whom had to be Islamic scholars
- c) Secretary to the Provincial Government in the Finance Department (official)
- d) Secretary to the Local Government Department (official)
- e) Secretary to the Social Welfare Department (official)
- f) Chief Administrator who was also the Secretary to the Council (official),<sup>344</sup> and also a member of the CZC.

The PZC members were to hold office for a period of three years after which they were eligible for re-appointment.<sup>345</sup> Like the CZC, the PZC was also a voluntary organisation.

Associated with the PZC was the Provincial *Zakat* Administration (PZA), headed by the

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<sup>343</sup> As mentioned before, in June 1989 the *zakat* system was federalised and the financing of the system became the sole responsibility of the Federal Government. However, the move was annulled in June 1991. Later, the system was again federalised and the operation was taken over by the Federal Government, but this time the Provincial *Zakat* Council and Funds were abolished. In 1995, through the eleventh amendment, the Provincial *Zakat* Administration was abolished. However, in July 1997 the amendments made in 1994 and after were repealed and the Provincial *Zakat* tier was revived again. Nazir, *Zakat Law*. pp. 162, 168, 170, 172, 175. Intiazi, "Management of Zakah Collection and Disbursement". p. 3

<sup>344</sup> Tanzil-ur-Rehman, "Introduction of Zakat in Pakistan", p. 43

<sup>345</sup> *Zakat and Ushr Ordinance, 1980*. p. 21

Chief Administrator with his professional staff. Its function was to disseminate and monitor policy at the provincial level and prepare reports for the PZC and the CZC.<sup>346</sup>

Below the PZC there were the District *Zakat* Committees (DZC) in each district consisting of 7 members. These committees consisted of a chairman (non-official), Deputy Commissioner of the district, 5 more non-official members, one from every sub-division in the district nominated by the PZCs in consultation with the chairman and the Deputy Commissioner.<sup>347</sup> These Committees oversaw the functioning of the Sub-divisional Committees and helped compile accounts of the Local *Zakat* Funds, and assisted in the distribution and utilisation of the *zakat* money. These also helped the LZCs in the assessment and collection of *ushr*.<sup>348</sup>

The Sub-Divisional Committee in each Sub-Division consisted of 7 members as well. There was a chairman who was non-official, the Assistant Commissioner of the sub-division and five non-official members all of whom were chairmen of the Local *Zakat* Committees. For the formation of these committees, all the chairmen of the Local *Zakat* Committees in the sub-division would constitute an electoral college to elect, from amongst themselves, 6 members for the Sub-Division *Zakat* Committee. These six members along with the Assistant Commissioner of the sub-division would then elect from among themselves the chairman of the Sub-Divisional Committee.<sup>349</sup> The Committees oversaw the distribution of *zakat*, compiled accounts and aggregated reports. These also heard appeals

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<sup>346</sup> Clark, "Pakistan's Zakat and Ushr System".pp. 192-193

<sup>347</sup> Butt, "Institutional Framework of Zakah."p. 381

<sup>348</sup> Tanzil-ur-Rehman, "Introduction of Zakat in Pakistan", pp. 44-5

<sup>349</sup> Butt, "Institutional Framework of Zakah." p. 381

from the Local *Zakat* Committees about the denial of benefits and the assessment of *ushr*. Their primary function was to support the Local *Zakat* Committees.<sup>350</sup>

Finally, there were the Local *Zakat* Committees (LZC) in each locality (such as a village with a population of about 3000), which also consisted of seven members, including a chairman. All members of the LZCs were non-official. They were selected or elected by the Muslims of the locality in a meeting organised by the DZC. The *zakat* system at the 'committee' level worked on a voluntary basis, unlike the CZA and the PZAs. However, the LZCs were able to hire a remunerated secretary and an *ushr* collector who were not members of the committees.<sup>351</sup> The major function of the LZCs was to identify the needy, verify the need, determine the amount and the frequency of the grant, document their receipts and prepare reports. An additional function of the LZC was to help the individuals with their rehabilitation.<sup>352</sup>

By 1983 there were a total of 37,025 *zakat* councils and committees and the *zakat* administration involved more than 259,196 people. There was one CZC, four PZCs, 72 District *Zakat* and *Ushr* Committees, and 292 Tehsil/Taluqa/Sub-Divisional *Zakat* and *Ushr* Committees. There were 23,193 Local *Zakat* and *Ushr* Committees in the Punjab, 6822 in Sind, 4008 in NWFP, 2484 in Baluchistan and 149 in Capital Territory.<sup>353</sup> The expenses incurred by the activities of the CZC and the administrative organisation of the Administrator General were to be met by the Federal Government, that of the PZCs, the administrative organisation of the Chief Administrator and that of the District and the Sub-

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<sup>350</sup> Clark, "Pakistan's *Zakat* and *Ushr* System".pp. 176-7

<sup>351</sup> Ibid. p. 192

<sup>352</sup> Ibid. pp. 177-9

<sup>353</sup> Ibid.p. 171

divisional Committees were to be met by the Provincial Government. However the expenses of the LZCs were to be met from the Local *Zakat* Fund, up to a limit of 10% of the receipts in that fund during that year.<sup>354</sup>

#### The *Zakat* Fund: Collection and Disbursement

With the passing of the *Zakat* and *Ushr* Ordinance a *Zakat* Fund worth Rs.2250 million was created.<sup>355</sup> The *Zakat* Fund was created at three tiers, i.e. the Local, Provincial and Central levels. It consisted of a Local Account that held *zakat* collected at the local level in a village or a locality. This account then transferred 25% of its collection to the Provincial Account (this transfer takes place surplus to the needs of LZCs). The Central Account, kept with the State Bank of Pakistan, held funds from *zakat* levied on assets of Pakistani Muslims with banks and other financial institutions from where they were distributed to the Provincial accounts which then transferred funds to institutions and LZC accounts.<sup>356</sup>

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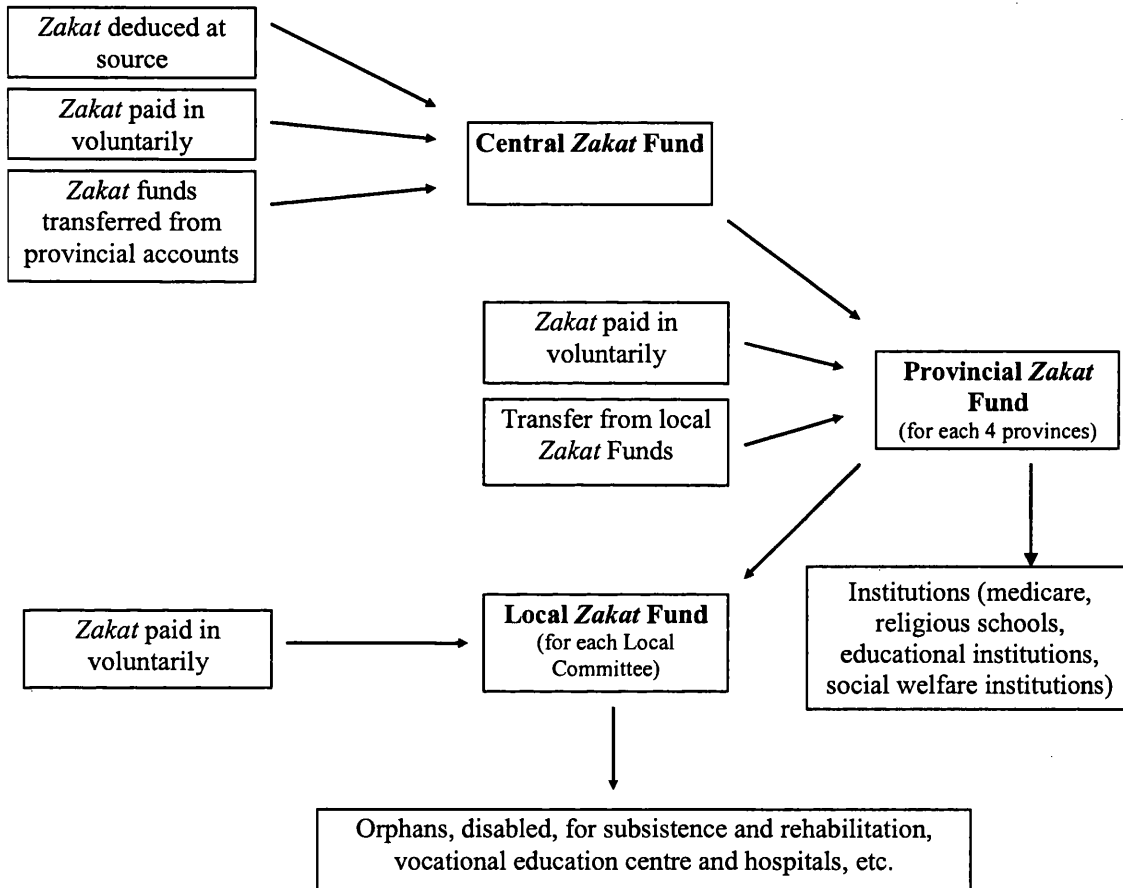
<sup>354</sup> Tanzil-ur-Rehman, "Introduction of Zakat in Pakistan", p. 39

<sup>355</sup> Directorate of Films and Publication, "Introduction of Islamic System in Pakistan: Address to the Nation, President General Mohammad Zia-ul-Haq," (Islamabad-Pakistan: 1979). p. 14. Additionally, a *Zakat* Foundation was set up in 1981 with a grant of 100 million from the Federal Government. Pakistani *zakat* law follows Hanafi tradition, which requires *zakat* ownership by the poor. This implies that *zakat* revenue cannot be spent on infrastructure that is necessary for rehabilitation. To overcome this problem the government set up this Fund. The *Zakat* Foundation does not use the *zakat* funds but is funded from the general revenue. Butt, "Institutional Framework of Zakah." p. 391. Clark, "Pakistan's Zakat and Ushr System". pp. 201-2

<sup>356</sup> Tanzil-ur-Rehman, "Introduction of Zakat in Pakistan", p. 38

**Figure 3.3**

**ZAKAT COLLECTION AND DISBURSEMENT**



Source: Author

The Local Account was managed by Local Committees in every village. The funds were to be utilised for the poor, widows, orphans and the handicapped eligible for *zakat* for their subsistence or rehabilitation. Additionally, at the local level, the funds were used to cover the expenses of the collection, disbursement and administration of *zakat* and *ushr*.<sup>357</sup>

### Charging Zakat

*Zakat* was deducted on a compulsory basis on savings held in banks or other financial institutions the value of which was equivalent to 612.32 grams of silver, at the rate of 2.5% from the accounts of the Muslim citizens and private companies, corporations and enterprises of Pakistan of which the majority shareholders were Muslims (excluding religious schools, mosques and orphanages)<sup>358</sup> on the first of *Ramadan* (the ninth month of the Islamic calendar).<sup>359</sup> In Pakistan, the assets subject to the compulsory levy of *zakat* were categorised in two schedules, the First and the Second. Schedule I included assets held by financial institutions on which *zakat* was deducted on a compulsory basis and Schedule II included assets on which *zakat* was levied but its payment was left to the discretion of the individual holding the asset.

In case of Schedule I, the deducting agencies were to be the institutions holding the accounts. The deduction date was to be specified by the Administrator General of *zakat* for the *zakat* year<sup>360</sup> as the valuation date for all assets was to be the 1 of *Ramadan*. Apart from the savings accounts, the deduction date was different from the valuation date, because the

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<sup>357</sup> Ibid.p. 39

<sup>358</sup> *Zakat and Ushr Ordinance, 1980.*

<sup>359</sup> Clark, "Pakistan's Zakat and Ushr System". p. 159

<sup>360</sup> *Zakat and Ushr Ordinance, 1980.* pp. 36-9

deduction date is the date on which *zakat* is actually deducted from the asset, and it can be different for various assets depending on the first return, redemption, encashment or the surrender date of the asset. Under the First Schedule the assets subject to *zakat* for credit to the Central *Zakat* Fund were:<sup>361</sup>

- 1) Saving Bank Accounts with banks operating in Pakistan
- 2) Notice Deposit Receipts and Accounts
- 3) Fixed Deposit Receipts
- 4) Savings Deposit Certificates, e.g. Defence Savings Certificates, National Deposit Certificates
- 5) Units of National Investments. The deducting agency in this instance was the Trustee of the National Investment Trust or its authorised agent paying the return on the value of the Units
- 6) ICP (Investment Corporation of Pakistan) Mutual Funds Certificates, with 2.5% of the face value or the market value based on the closing rate at the Karachi Stock Exchange, whichever would be lower, on the valuation date in each *zakat* year. In this case the deducting agency was the Investment Corporation of Pakistan
- 7) Government Securities (other than prize bonds and certificates mentioned in points 3 and 4)
- 8) Securities including shares and debentures of statutory companies or corporations excluding those mentioned in points 5, 6 and 7
- 9) Annuities
- 10) Life Insurance Policies. The deduction date would be the date of payment of value on maturity or of survival benefit or of surrender value.
- 11) Provident Funds

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<sup>361</sup> Ibid, pp. 36-9

In June 1987 during Zia's regime, the *Zakat and Ushr Ordinance* was amended to empower the Federal Government to exempt any types of bond or certificate issued by the Federal Government or a statutory corporation or a company owned by the government or a local authority by a notification in the official Gazette.<sup>362</sup>

In the Second Schedule the assets subject to the levy of *zakat* included:<sup>363</sup>

Gold and silver items at 2.5% of the market value on the Valuation Date, cash at 2.5% of the amount on the Valuation Date, prize bonds at 2.5% of the face value as on the Valuation Date. The schedule also included, current and foreign currency accounts, certificates, Units of National Investment Trust, ICP Mutual fund Certificates, Government Securities, annuities, life insurance policies and Provident Funds where *zakat* was to be payable at the rate of 2.5% of the value of the asset on the Valuation Date.

The above exposition highlights the *zakat* policy as imposed in Pakistan constituted in the *Zakat and Ushr Ordinance*. The following segment examines the final shape that the *zakat* policy assumed. It aims to uncover Zia's hidden preferences regarding *zakat* and tries to achieve this by assessing the *zakat* policy in light of the proposals forwarded by the Council of Islamic Ideology. It is interesting to compare the Council of Islamic Ideology's recommendations regarding the *Zakat and Ushr Ordinance* with the actual Ordinance as it will reveal (on an empirical level) how Zia's Islamic state utilised the *zakat* policy, through the power granted to it by the *Shariah*, to pursue its agenda of affirming power instead of creating distributive justice in Pakistan. This section will reveal that the body of Islamists,

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<sup>362</sup> Nazir, *Zakat Law*. p. 158

<sup>363</sup> *Zakat and Ushr Ordinance, 1980*.pp. 41-44



which was formed to counsel matters pertaining to *Shariah* aspects of Islamisation and help in creating a socially acceptable and workable system of *zakat*, found itself conveniently disconnected from the final stages of the imposition of the *Zakat* and *Ushr* Ordinance. Before the chapter undertakes these analyses it explores the history and character of the CII.

### *The Council of Islamic Ideology*

In March 1949, two years after the birth of Pakistan, the Constituent Assembly under the leadership of Prime Minister Liaqat Ali Khan setup a Basic Principles Committee. One of the aims of this Committee was to advise the government on the Islamic principles of the future constitution of Pakistan.<sup>364</sup> In 1956 Pakistan got its first constitution under Prime Minister Mohammad Ali. Article 198 of this constitution held that within one year of its promulgation, the President would form a commission that would work to bring the existing laws into conformity with Islam. However, when General Ayub Khan imposed martial law and abrogated the constitution in 1958 these plans could not be realised.<sup>365</sup>

It was only with Article 199 of the new 1962 Constitution that the idea of forming an Advisory Council of Islamic Ideology for the purpose of Islamising laws was realised under President Ayub Khan.<sup>366</sup> The rationale of this Council was embedded in the rhetoric of the *raison d'etre* of Pakistan. This meant that the Council was to advise the government on bringing all the existing laws in the country in conformity with the *Shariah*. Additionally, it

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<sup>364</sup> Haider, *Islami Nazriati Council Irtqai Safar aur Karkardagi*.p. 121

<sup>365</sup> Ibid. p. 53

<sup>366</sup> Ibid. p. 54

was to assist the government in shaping laws that would enable Muslims to lead their lives according to the teachings of the *Quran* and *Sunnah*.<sup>367</sup>

The Council was to consist of a minimum of five members and a maximum of twelve, and these were appointed for a period of three years. The appointment of the Council's chairman and the members was to be at the discretion of the president. The members were to possess profound knowledge of Islam and erudition regarding the economic, political, legal and administrative challenges facing Pakistan. The proceedings of the Council were to take place according to rules and regulations, which were to be formed with the approval of the president.<sup>368</sup> As mentioned earlier the Council was supposed to reinterpret Islam according to modernist lines and was to justify Ayub's policies.

The duty of the Council was to propose to the provincial and federal government ideas that would enable the Muslims of Pakistan to order their lives according to Islamic philosophy. The CII was to deliver solutions to queries from the parliament, president or governor regarding Islamic issues related to a law. If the Council could not provide an answer within seven days to any query regarding a law that, for the benefit of the general public, had to be formed without delay, then the government could form the law without the input from the Council.<sup>369</sup>

In 1973 Zulficar Ali Bhutto became the Prime Minister and in the same year the new constitution came into effect, declaring Pakistan to be an Islamic Republic with Islam as the state religion. Article 228 of the new constitution laid out that the government was to form

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<sup>367</sup> Ibid. p. 591

<sup>368</sup> Ibid. p. 130

<sup>369</sup> Ibid. pp. 128-30

an Islamic Ideology Council within nine days of its formation. The differences between the 1962 and the 1973 Councils were that Bhutto's constitution removed the word 'Advisory' and allocated additional duties to the new Council amplifying its influence. Its members were increased from a minimum of five to eight and from a maximum of twelve to twenty. Two of the Council members were to be judges of either the supreme or of the high court. Four members were to possess at least fifteen years' experience in imparting Islamic knowledge. One Council member was to be a woman in addition to representatives from different schools of thought.<sup>370</sup> The Council's duties not only included advising the parliament, president and the governor but the time period allocated to the Council for query consideration was extended from seven to fifteen days. Additionally, the assembly, president or the governor would have to reconsider a law before passing it if the CII, after being asked for their opinion on that specific law, considered it to be repugnant to the teachings of Islam.<sup>371</sup>

After coming to power General Mohammad Zia-ul-Haq resuscitated the Council on the 29 September 1977 and retained the Council's character under the 1973 Constitution. Zia donated a sum of 10 million rupees under the heading of 'emergency help' to the Council. The Council, in its fervour for Zia's Islamic stance and for its own empowered status (as assured by Zia), adopted a framework for its activities based on the *Quranic* verse, which translates as follows:

'These are the people that if we grant them power on this earth they will organise prayers, give *zakat*, will order preaching and discourage disillusionment and Allah controls all outcomes'.

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<sup>370</sup> Ibid. pp. 133-36

<sup>371</sup> Ibid. p. 135

Most of the inaugural members of the Council from 26 September 1977 until 25 September 1980 were from the Islamic right-wing parties such as the Jamaat-i-Islami and Nizam-e-Islam. The Council consisted of a chairman and the rest were members to be appointed by President Zia. There were two judges from the Pakistan Supreme Court, one serving and the other retired. Then there were two advocates, nine Muslim clerics (one *Shia*), the Secretary of the Ministry of Religious Affairs and two academics, one of whom was a woman.<sup>372</sup>

As time passed some members of the Council became dissatisfied with the Islamisation process in Pakistan. The shape and procedure of the *Zakat* and *Ushr* Ordinance was a real bone of contention. Consequently, by the promulgation of the Ordinance prominent Islamic cleric members such as Maulana Taqi Usmani, Mufti Siah-ul-din Kakakhail and Mufti Mohammad Hussain Naeemi resigned in June 1980.<sup>373</sup> This is a noteworthy point that shows that those who were dissatisfied by the process and shape of the *zakat* policy consequently did not want to be part of the design and had no choice but to resign from the government.

### **Objectives of Zakat, Shape of Zakat Policy and Zia's Hidden Preferences**

The CII's annual report for 1978-79 stated clearly that it was the utmost priority of the government to turn Pakistan into an Islamic welfare state and for this reason the experts were set to work on the creation of the *zakat* and *ushr* system.<sup>374</sup> In the same year, in his address to the nation on 10 February 1979, General Mohammad Zia-ul-Haq pointed out that many Pakistani Muslims had turned their backs on Islam and had forgotten their duty

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<sup>372</sup> Ibid. pp. 765-766

<sup>373</sup> Ibid. p. 767

<sup>374</sup> islami nazriati council, "islami nazriati council ki salana report (1978-79)."pp. 95-7

towards social welfare, justice and fair play.<sup>375</sup> He asserted that Islam is a welfare-oriented religion that protects the poor and the weak rather than the rich and the strong and protects the right of the human being in all spheres.<sup>376</sup>

He added that his government was using *zakat* to initiate the Islamisation process of Pakistan because *zakat* is one of the most important pillars of Islam and related to the 'economic and welfare aspects of the society'. He emphasised that it was obligatory on the government of the day to organise the collection of *zakat* from 'those Muslims whose financial position warranted payment of *zakat*'.<sup>377</sup> He stressed that, 'To narrow the gap between the rich and the poor and to look after the indigent and the destitute are important principles of an Islamic society and are also the cornerstones of the policy of the present Government. The system of *Zakat* and *Ushr* would make available to us resources which, if spent properly, would open up possibilities for the welfare of the poor people'.<sup>378</sup> According to the *zakat* law in Pakistan, the preferential beneficiaries of *zakat* expenditure were to be widows, orphans, the disabled and students of religious schools.<sup>379</sup>

The above are the objectives of the *zakat* policy as formally stated by President Zia himself and the CII. The following section examines whether the structure of *zakat* was designed in a way that would facilitate the achievement of these objectives.

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<sup>375</sup> Directorate of Films and Publication, "Introduction of Islamic System in Pakistan: Address to the Nation, President General Mohammad Zia-ul-Haq (1979)."p. 2

<sup>376</sup> Ibid.p. 5

<sup>377</sup> Ibid.p. 7

<sup>378</sup> Ibid.p. 12

<sup>379</sup> markazi zakat council, "markazi zakat council ki kargardagi report," ed. makazi zakat intizamia (Islamabad: vizarat-e-khazana, 1980-81).p. 19. markazi zakat council, "markazi zakat council ki karkardagi report," ed. markazi zakat intizamia (Islamabad: vizarat-e-khazana, 1981-82).p. 39

Chapter Two discussed how the *Shariah* allows the Islamic state to have immense political and economic power and authority, the objective of which is to ensure justice in society and to guarantee welfare to all its members. The Islamic state exercises its power via an elected or selected *Amir* who is the vicegerent of *Allah* and is the locus of power between *Allah* via the *Shariah* and the Muslim people (making the Islamic state a theocracy). Chapter Two also discussed how the decisions of the *shura* are not binding on the *Amir*, and that the system of Islamic polity has the potential to allow the *shura* and the *Amir* to easily form an oligarchy to support each other's interests and to avoid confrontation. Keeping this view under consideration, this section seeks to examine how the Islamic state exercised its *Shariah* power in the formation of *zakat* policy and how this influenced the shape of the *zakat* policy in Pakistan. The immense leverage granted to the Islamic state under the political structure can give rise to a situation where the Islamic governing body may take advantage of the power and pursue its own vested interests in the name of justice for all. Chapter One highlighted how *Shariah's* norms regarding notions of welfare and justice are not always clear. It is important to point out that in areas where the *Shariah's* position is irresolute the Islamic state can effortlessly manoeuvre clauses regarding those areas and remodel them in its own interests. Hence, this section investigates the obscure points regarding *zakat's* nature that allowed for manipulation by the state for its own purposes which consequently affected *zakat* policy formation. The implications of such manipulation on *zakat's* performance in Pakistan will become apparent in Chapters Four and Five.

The following section evaluates the Council of Islamic Ideology's proposals concerning the *Zakat* and *Ushr* Ordinance with the imposed policy. The rationale is to reveal how Zia's Islamic state exploited the *zakat* policy, as a means to securing power instead of creating distributive justice in Pakistan.

### Nisab of Zakat

A very important aspect of the imposition of *Zakat* and *Ushr* Ordinance that had been the subject of constant debate at CII meetings and repeatedly brought to the notice of Zia and the Ministry of Finance was the issue of *nisab* (which is the minimum amount of wealth liable to *zakat*, see Chapter Two). The level is not stated clearly in the *Shariah* but is inferred from it. Islamic jurists differ on the point as to whether paper currency, which is the medium through which *zakat* is usually given in modern times, should be equated with gold or silver. The orthodox view is that the *nisab* of *zakat* should be defined in silver.<sup>380</sup> However, there are those who hold that *nisab* should be equated to gold because in recent times the price of gold has adjusted to a higher degree of inflation than silver. The pegging of *nisab* to silver or gold is a contentious matter especially in the case of Pakistan. The CII held that the *nisab* for *zakat* should be pegged to gold as gold had retained its cash value, whereas silver had deteriorated in value relative to gold over the years.<sup>381</sup>

According to the Pakistan *Zakat* Ordinance, *nisab* was pegged to the value of silver. This meant that if an individual or company had money lying in the financial institutions, the aggregate value of which was equivalent to 612.32 grams, then *zakat* was liable on that money. The procedure of fixing the *nisab* was that on the 1 of *Ramadan* of each year, the Federal Government declared the monetary equivalent of 612.32 grams of silver through an SRO (Statutory Notice of the Government of Pakistan). When the promulgation of the Ordinance took place in 1980, the value of 612.32 grams of silver as notified by the SRO

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<sup>380</sup> Nazir, *Zakat Law*. p. 114

<sup>381</sup> islami nazriati council, "islami nazriati council ki salana report (1977-78)."p. 167

was Rs.2780,<sup>382</sup> which was \$280.80. The second column of table 3.3 below shows the monetary equivalent of *nisab* as declared over the years. An interesting exercise would be to compare *nisab* to a basic consumption basket of goods over time. For this purpose the 1984 annual poverty line of Rs. 2568 is used. This poverty line is projected across the entire period using the CPI (Consumer Price Index) as given in column three.

**Table 3.3**

**Nature of Nisab in Pakistan**

Year	Nisab (Amount notified as Rs. equal to 612.32 grams of silver)*	Poverty Line expressed Rs. Annually	% Gap (Nisab divided by Poverty Line)	Pakistan's Consumer Price Index	Inflation Adjusted Nisab (in 1980 prices-Rs.)
1980	2780	1921	44.7	20.9	2780
1981	2000	2149	-6.9	23.4	1788
1982	2000	2275	-12.1	24.8	1689
1983	3000	2420	24.0	26.4	2381
1984	2500	2568	-2.6	28.0	1870
1985	2200	2712	-18.9	29.6	1558
1986	2200	2807	-21.6	30.6	1506
1987	2500	2939	-14.9	32.0	1634
1988	3200	3198	0.1	34.8	1922
1989	3400	3449	-1.4	37.6	1894
1990	3200	3761	-14.9	41.0	1634
1991	3300	4195	-21.3	45.7	1511
1992	3000	4605	-34.8	50.2	1252
1993	3000	5063	-40.8	55.2	1138
1994	3600	5690	-36.7	62.0	1215

\* This amount is notified by the SRO= Statutory Notification issued by the Government of Pakistan

Source: Second column: Nazir, K. (2002). *The Zakat Law*. Islamabad, Ammar Publications, p. 118. Poverty line Havinga, I. C., Haanappel, F. W., Louter, A. S., van den Anandel, W. A. "Poverty in Pakistan 1984-85." *The Pakistan Development Review* 28, no. 4 Part II (1989): 851-869, Consumer Price Index [www.datastream.net](http://www.datastream.net), and Author's own calculations.

According to the fourth column, apart from the first year when *nisab* stood around 45% above the poverty line and in 1983 when *nisab* again rose above the poverty line, *nisab* was significantly below the poverty line by 1985. After narrowing somewhat in the late 1980s,

<sup>382</sup> Nazir, *Zakat Law*. p. 118



the gap between *nisab* and the poverty line continued to widen in the 1990s, registering a record low of -40% in 1993. This downward trend was a reflection of the decline of the relative price of silver compared to inflation in Pakistan. This meant that the levy of *zakat* was geared increasingly towards the poor over time. Even if one keeps in mind that *nisab* is related to accumulated wealth whereas the poverty line measures relate to annual income the fact that *nisab* was losing value in real terms constantly over the years (as seen in the last column), reasserts the claim that the burden of *zakat* was increasingly falling on the poorer sections of the society i.e. over time people with less wealth became liable for the payment of *zakat*.

On the contrary, if the *nisab* of *zakat* had been pegged to gold in the *Zakat* Ordinance, then according to the last column of table 3.4 below, *nisab* would have been more positively directed towards the financially better-off in Pakistani society as *nisab* would have been on average a multiple (5 to 6 times) of the poverty line (see column 3 below).

Table 3.4

## Gold Pegged Nisab

Year	Price of gold (Rs. Per fine ounce)	Nisab of gold in Rs. (87.48 grams)	Poverty Line Rs. Annually (1984)	% Gap (Nisab divided by Poverty Line)
1980	5974.7	18293	1921	852.3
1981	4451.7	13630	2149	534.4
1982	4483.4	13727	2275	503.3
1983	5475.8	16766	2420	592.7
1984	5027.2	15392	2568	499.4
1985	5100.6	15617	2712	475.8
1986	6125.1	18754	2807	568.2
1987	7829.1	23971	2939	715.7
1988	7787.7	23844	3198	645.7
1989	7799.8	23881	3449	592.4
1990	8301.8	25418	3761	575.8
1991	8554.2	26191	4195	524.3
1992	8609.9	26362	4605	472.5
1993	10227.6	31315	5063	518.4
1994	11763.5	36018	5690	533.0

\* The price of gold may be expressed in 'per fine ounce'. The fineness of gold is the proportion of gold that is pure, distinct from alloy. 1000 fine or fineness of 1 denotes pure gold.

1 ounce = 28.35 grams                      1 gram = 0.035 ounces

Source: www.eh.net and authors own calculations. Poverty line I. C. Havinga, Haanappel, F. W., Louter, A. S., van den Andel, W. A., "Poverty in Pakistan 1984-85," The Pakistan Development Review 28, no. 4 Part II (1989).

By observing prices of gold and silver over time one can only assume that the government's rationale for pegging *nisab* to silver could have been that more people would be liable to pay *zakat* and it would raise more revenue. However, the fact that the price of silver has not kept pace with inflation makes it an inappropriate base for the assessment of *zakat* as the low value of *nisab* pegged to silver undermines the goals of equality, justice and welfare. The ambiguity in the *Shariah* regarding whether *nisab* should be pegged to gold or silver gave an easy option to the policy-making body to characterize *zakat* in a way that would appease the financially better-off in society.

In 1990, a case filed at the Federal *Shariat* Court, *Dr. Mehmood-ur-Rehman vs. Government of Pakistan*, *Shariat* Petition No. 24/1, raised concern over the rate of *nisab*. In 1990 the rate of *nisab* was Rs.3200, but if it had been pegged to gold, the price of 87.48 grams of gold would have been around Rs.25400. Mehmood-ur-Rehman accused the *Zakat* Ordinance of being repugnant to the injunctions of Islam and that the *zakat* system was working against the ideals of justice by making those people pay *zakat* who were liable to receive it.<sup>383</sup> The judgment given by the Chief Justice, Tanzil-ur-Rehman who interestingly had been the chairman of the CII from May 1980 to May 1984,<sup>384</sup> was that *Zakat* and *Ushr* Ordinance falls within the definition of Muslim Personal Law and thus does not come under the jurisdiction of the Federal *Shariat* Court. Thus the petition was dismissed.<sup>385</sup>

The manner in which *nisab* was utilised in the *Zakat* Ordinance suggests that there was no true attempt by the Islamic polity (through Zia and his ruling elite) to redistribute resources in the favour of the poor. Indeed, the low relative value of *nisab* makes it likely that redistribution was taking place from the poor to the poor (an issue pursued further in Chapters 4 and 5). It seems that the Zia Government took full advantage of the obscurity in the *Shariah* regarding *nisab* of *zakat* and established the level of *nisab* so that the majority of the population would be liable to pay it regardless of the impact this might have on their living standards.

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<sup>383</sup> *Dr. Mehmood-ur-Rehman vs. Government of Pakistan*, *Shariat* Petition No. 24/1 (1990).

<sup>384</sup> Haider, *Islami Nazriati Council Irtqai Safar aur Karkardagi*.p. 756

<sup>385</sup> *Dr. Mehmood-ur-Rehman vs. Government of Pakistan*. *Zakat* and *Ushr* Ordinance falls within the definition of Muslim Personal Law and thus does not come under the jurisdiction of the Federal *Shariat* Court. Federal *Shariat* Court was created in 1980 with significant restrictions on its jurisdiction under Article 203B of the Constitution, including a lack of jurisdiction in matters pertaining to Muslim personal law, fiscal laws, taxation, banking, and insurance for a period of 10 years.

Years later, in 1990 when Nawaz Sharif became the Prime Minister the Islamic *Shariah* law was incorporated into the legal code.<sup>386</sup> This time could have been ripe to reform *zakat*, however, even during his time no attempt was made to modify *nisab*. It seems that the successive governments also turned a blind eye to the unjust nature of the *zakat* law.

#### Mass representation in the Central *Zakat* Council

It was recommended in the report of the panel of bankers and economists (submitted to the CII in March 1978), endorsed by the CII and communicated to Zia's Cabinet and bureaucrats, that the CZC membership should include four representatives of the general masses in addition to the original 16 members. One of these additional members would be from minority sects, another from the Federation of Chambers of Commerce and Industries, one to represent the labour unions and the fourth to represent the agricultural sector.<sup>387</sup> However, this suggestion of representation of different religious sects and various walks of life was dropped by the government, i.e. the Ministry of Finance<sup>388</sup> and was not included in the Ordinance.

This proposal for broader representation might have resulted in a more just and better targeted *zakat* programme, and it might have had a positive effect on the efficiency of *zakat's* administration. For example, accepting a representative from the agricultural sector might have helped to highlight issues regarding *ushr's* calculation (*zakat* on agriculture), and any logistical problems that were incumbent in the rural areas (due to poor infrastructure). However, it appears that Zia was content with the endorsement that the

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<sup>386</sup> In 1993 President Ishaq Khan and Prime Minister Sharif both resigned under pressure from the military. The general elections brought Benazir Bhutto back to power. However, in 1996 President Leghari dismissed the Bhutto government amid corruption allegations.

<sup>387</sup> islami nazriati council, "islami nazriati council ki salana report (1977-78)."pp. 175-6

<sup>388</sup> islami nazriati council, "islami nazriati council ki salana report (1978-79)."p. 112

stamp of an Islamic state provided as he did not seem to be looking for alliances with the poor working classes and did not need their input on matters pertaining to *zakat* policy and imposition.

### Zakat Assets

As mentioned above, the assets on which *zakat* was imposed were divided into two schedules. Schedule I included assets held by financial institutions on which *zakat* was deducted on a compulsory basis and Schedule II included assets on which *zakat* was levied but its payment was left to the discretion of the individual holding the asset. Islamists who hold that the state is authorised to deduct *zakat* clarify that according to the *Shariah* the Islamic state can intervene and deduct *zakat* on apparent wealth, while its role is silent on non-apparent wealth, therefore respecting the individual's privacy. In the classical concepts of apparent and non-apparent wealth, apparent wealth generally meant domestic animals, agricultural produce and articles of trade, while non-apparent wealth was thought to imply gold, silver and articles of trade that had not become apparent by passing them through customs.<sup>389</sup> In modern times apparent wealth would be assets kept in banks and other financial houses and non-apparent wealth would be kept at home or in bank vaults. In the report of the panel of bankers, there was no mention of dividing *zakat* assets into schedules, and only assets on which *zakat* was to be deducted were named and the rest of the assets on which payment of *zakat* was required by the *Shariah* were left to individuals' conscience.<sup>390</sup>

On 31 July 1980, a year after the passing of the Ordinance, the CII proposed that the two schedules, differentiating between apparent assets and non-apparent assets, should be

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<sup>389</sup> Zayaz, *Law and Philosophy of Zakat*.p. 297

<sup>390</sup> islami nazriati council, "islami nazriati council ki salana report (1977-78)."p. 165

codified by law. At this juncture the ministers of various bureaux communicated to the CII that the reason behind dividing these assets into two schedules was not to strike similarity with the *Shariah* injunctions of apparent and non-apparent wealth, and for this reason it was absolutely unnecessary to codify these assets as doing so would cause undue complications in the Ordinance. It was their concern that linking these schedules to the *Shariah* would trigger a huge debate as to which assets could be defined as apparent and which as non-apparent wealth.<sup>391</sup>

Interestingly, the conclusion one can draw from this point is that in the absence of codification of these assets and of their formal endorsement as apparent and non-apparent wealth, the government was free to shift these assets from one schedule to the other and thus keep the reins of *zakat* policy at its disposal. The lack of a *Shariah* yardstick for the exact identification of apparent and non-apparent wealth provided an opportunity for the State to manipulate the details of *zakat* policy to placate key interest groups.

Another blow to the CII came on 7 October 1984 when the Ordinance was amended to give the government wide-ranging powers regarding the exemption of private or government-issued bonds and certificates from the levy of *zakat*. Previously, the government was required to consult the CII before granting exemptions to any kind of person or asset, however, this amendment terminated the requirement of CII's approval. This action was entirely against the *Shariah* as it prohibited arbitrary restrictions on assets that were compulsorily liable to *zakat*.<sup>392</sup>

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<sup>391</sup> islami nazriati council, "islami nazriati council ki salana report," ed. islami nazriati council (Islamabad: vizarat-e-khazana, huqumat-e-pakistan, 1980-81).p. 88

<sup>392</sup> Nazir, *Zakat Law*. pp. 158-9

### Zakat and current accounts

The report of the panel of bankers recommended that current accounts should be liable to *zakat*. The CII had held that the industrialists and businessmen tend to maintain current accounts for ease in business transactions, and so in order to extract *zakat* from their money, it would be feasible to impose *zakat* on current accounts as well and bring them under Schedule I.<sup>393</sup> But when the Ordinance was passed this clause had been dropped and current accounts became part of Schedule II. However, savings accounts were made part of Schedule I, which meant the compulsory deduction of *zakat* on this asset. Interestingly, these savings accounts generally belonged to the middle or lower income echelons. One national newspaper noted that the partiality of the government to favour the affluent is apparent because the *zakat* law affects the savings of the middle classes.<sup>394</sup> This meant that it was not possible to tap the wealth of the elite under this policy and that the incidence of *zakat* would not fall on the wealthy but on the not-so wealthy and even poorer sections of the society. The CII's suggestion to impose *zakat* on current accounts was never met, as it would have had negative repercussions on the business of the elite and the bourgeoisie consequently unsettling their support for Zia. As corporate taxes are not easy to raise in Pakistan, imposing *zakat* on current accounts of the companies would have been one way of tapping the resources of the rich, as the withholding nature of *zakat* deduction would have made it administratively easier to manage.

### Zakat and stock-in-trade

Another asset that had become an issue and a source of debate within government circles was stock-in-trade (of commercial undertakings, industrial undertakings, precious metals

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<sup>393</sup> islami nazriati council, "islami nazriati council ki salana report," ed. islami nazriati council (Islamabad: vizarat-e-khazana, huqumat-e-pakistan, 1981-82).pp. 235-6

<sup>394</sup> Staff Reporter, "Evading Zakat," *The Muslim*, 11th March 1987.

and stones, fish and other catches from the sea). When the Draft *Zakat* and *Ushr* Order was issued in February 1979 to assess public opinion (as mentioned earlier in this chapter) for the purpose of imposing *zakat*, the public was given an option of expressing their views on a clause stipulating that *zakat* would be levied on a compulsory self-assessment basis on stock-in-trade worth more than Rs. 10,000 (\$1010 according to the 1979 exchange rate). The public responses are not available, but the report of the panel of bankers favoured levying the *zakat* on stock-in-trade, and Zia's Federal Cabinet had also initially approved this clause.<sup>395</sup>

When the Ordinance was promulgated, stock-in-trade was part of Schedule II following a decision by the Ministry of Finance. The reason given for this change was that it was due to the administrative limitations of *zakat* collection.<sup>396</sup> One is bound to be sceptical of this reason, given that the panel of bankers in their report estimated that *zakat* collection from stock-in-trade would total Rs. 264 million (\$26.4 million) for the first year, which appeared to be a tantalising sum for a government wanting to establish redistributive justice, and would have increased *zakat* revenues by 31% for the first year.<sup>397</sup> Additionally, it is surprising that the government was willing to forgo such a large amount of revenue for the sake of administrative ease, given that tax officials could have also collected *zakat* while collecting income tax from companies or could have worked in collaboration with *zakat* personnel by providing them with information on company revenue. Another reason for placing stock-in-trade under Schedule II could have been that Zia's Islamisation policies enjoyed heavy support from the urban petit bourgeoisie who were part of the trading

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<sup>395</sup> islami nazriati council, "islami nazriati council ki salana report (1978-79)."pp. 126-8

<sup>396</sup> Ibid.p. 128

<sup>397</sup> Ibid.p. 127



classes. These people had been rallied by the Jamaat-i-Islami against Bhutto and were encouraged by it to back Zia's Islamisation programme.<sup>398</sup>

By analysing the differences between the suggestions made by the CII and the final *Zakat* and *Ushr* Ordinance as it was imposed, the above analysis has revealed how *zakat* policy was manoeuvred in a way that could potentially compromise its revenue and thus run counter to *zakat's raison d'etre* (that of creating redistributive justice). The following point is an exercise in reiterating that Zia's Islamic state controlled any Islamic legal stance regarding *zakat* that it thought would go against its political security in the country.

#### *Zakat* and the *Shia* question

As stated in Chapter Two, not all *Sunni* schools of law agree on the authority of the Islamic state to collect *zakat*. Some *Sunni* minority Islamic jurists hold that *zakat* is not a tax imposed by the state, and thus, is not dependent on it for its function. Similarly, *Shia* law does not empower the state to collect *zakat* either and entrusts the individual to pay it as he/she pleases. Thus, when Zia imposed *zakat*, its imposition did not go unchallenged by the country's *Shias*, who constituted 15% of the population. The imposition of *zakat* at the national level meant the Zia Government's advocacy of one religious position to the exclusion of others regarding the Islamic laws. The *Shia* leaders were concerned over the fact that Islamisation of certain laws was being conducted in a way that ignored the principles of the *Shia* school of law.<sup>399</sup> Differences in laws affecting the levying of *zakat* are more volatile than other laws as they have financial consequences for both the *zakat* payer and the beneficiary. The government met stiff resistance from the *Shia* community,

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<sup>398</sup> Noman, *The Political Economy of Pakistan*.p. 150

<sup>399</sup> M. A. Khan, *Pakistan: The Barren Years: The Viewpoint Editorials and Columns of Mazhar Ali Khan 1975-1992* (Karachi: Oxford University Press, 1998).p. 374

which numbers between 15-25 percent of the population. They refused to pay *zakat* to a Sunni government. Their agitations forced the government to exempt them from compulsory *zakat* deductions. In the process the *Shia* community was politicized and Zia's allies among the Sunni Islamic activists had developed an anti-*Shia* posture. State policy therefore intensified sectarian conflict.<sup>400</sup>

The government amended the Ordinance within four months of imposition and on 29 October 1980 conceded the *Shia* demand that *zakat* should not be deducted from them by the state.<sup>401</sup> Although there was a *Shia* member in the CII at the time (Jafar Hussein, who bore the *Shia* literary title of *Mujtahid*), selected by Zia,<sup>402</sup> it did not prevent sectarian tensions in the country as the cleric was not seen as a true representative of the *Shia* community.

*Shias* could claim exemption through the submission of an attested copy of form CZ-20 to a *zakat* deduction office. This form stated that the individual is a *Shia* and that his/her sectarian beliefs grant him/her immunity from paying *zakat* to the state. The form had to be filed within three months preceding the valuation date.<sup>403</sup> The fact that this form was to be filed every year created new controversy, as people generally did not change their sectarian affiliations frequently. *Shias* found that in the course of delays to the submission of the CZ-20 their assets were being subjected to the levy of *zakat*. They blamed the government for

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<sup>400</sup> V. Nasr, "Islamization, the State and Development," in *Islamization and the Pakistani Economy*, ed. R.M. Hathaway and L. Wilson (Washington, D.C.: Woodrow Wilson International Center for Scholars, 2004).p. 1971

<sup>401</sup> A. Iqbal, *Islamisation of Pakistan* (Dehli: Idarah-i-Adabiyat-i-Delli, 1984). p. 108

<sup>402</sup> Haider, *Islami Nazriati Council Irtqai Safar aur Karkardagi*.p. 765

<sup>403</sup> This period was reduced to thirty days through an amendment in the Ordinance passed on 29 October 1983. Nazir, *Zakat Law*. p. 155

making the procedure tiresome and also claimed that the government did not advertise the deadline for the form's submission with sufficient thoroughness.<sup>404</sup>

Thus another amendment was made in the Ordinance by inserting a proviso stating that no *zakat* shall be charged from a person who files a declaration that he or she is a Muslim and follower of one of the recognised *fiqh* (which he or she will specify in the declaration) and the said *fiqh* does not oblige him or her to pay *zakat* in a manner prescribed in the Ordinance. This declaration remained valid till the asset remained in the custody of the deducting agency.<sup>405</sup>

It seems that the Islamic state had hoped to generate higher *zakat* revenues without consideration for the beliefs of the minority Muslim sects or assessing the sensitivity of imposing *zakat* at the national level. Consequently, *zakat* exemptions thus given made it potentially counterproductive to raising high revenues.

An interesting point to note in the Ordinance is that no particular *fiqh* was named to justify exemption from *zakat*, only the words 'recognised *fiqh*' were used and no definition of a recognised *fiqh* was provided.<sup>406</sup> This seems peculiar when one takes a look at an official paper of the Islamic *Shariat* Court, which indicates that on the suggestion of the CII, a similar provision to the one that exempted *Shias* from paying *zakat* was also made applicable to the followers of *Hanafi* law, i.e. the *Sunnis*. However, these exemptions were

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<sup>404</sup> Mayer, "Islamisation and Taxation in Pakistan." p. 73

<sup>405</sup> Nazir, *Zakat Law*. p. 145. However, this exemption did not bar deserving *Shias* from receiving *zakat* from the *Zakat* Fund.

<sup>406</sup> *Ibid.* p. 145

not made public at the time and were kept as confidential administrative orders.<sup>407</sup> It is not clear why this provision was hidden from public knowledge at the time. However, in 1999 this decision was made public and the followers of the *Hanafi* sect have since been able to claim exemption from *zakat* payment as well.<sup>408</sup>

This singular situation indicates that although the Zia Government acknowledged the legal differences within the *Sunni* schools of law, it did not want to fan these differences as doing so might not only have turned the *zakat* system on its head but brought into question the establishment of the Islamic system. It seems that in keeping *zakat* exemptions made to the *Sunnis* confidential, Zia's Islamic state wanted to boost the collection of *zakat* revenues in order to demonstrate the success of the Islamisation programme. It was one of the CII's greatest anxieties that *zakat* revenue would fall if it became common practice for *Sunnis* to claim exemption from payment.<sup>409</sup> It would be fair to assert that notwithstanding the differences in sectarian laws the absence of a formal structure of organised religion even within the *Sunni* legal tradition made it difficult for Zia to organise social cohesion regarding *zakat*.<sup>410</sup>

It seems that Zia could employ various tactics to manipulate and influence *zakat* policy, as it was rendered vulnerable to political manipulation by the structure of the Islamic polity.

The interventionist and dominating economic and political powers granted to the Islamic

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<sup>407</sup> F. I. Qazi, in *Islamic Shariat Court* (Islamabad: 2001). See also, islami nazriati council, "islami nazriati council ki salana report (1980-81)." pp. 85-7

<sup>408</sup> Staff Reporter, "Fiqh Hanafi valoon kuo bhi Zakat ki katauti sae choot," *Jang*, 10 March 1999, pp. 1 & 7

<sup>409</sup> islami nazriati council, "islami nazriati council ki salana report (1977-78)." p. 122

<sup>410</sup> M. H. Khan, "Social Justice and sustainable development in Muslim Countries," in *Economic and Social Policies and Wealth Redistribution in Muslim Countries* (Cambridge: Trinity College, University, 2005). p. 3. Khan highlights the institutional fragmentation of religion in Muslim countries in general to argue that Islamic or indigenous notions of justice and legitimacy ought to be considered before perspectives of good governance and free market to achieve economic development as features of the institutional and political organization of religion may also make developmental transformation more difficult.

state certainly empowered Zia and fitted very well with the political situation that he was facing. The orthodox ideology represented the rhetoric that Zia needed to gain control over Pakistani society, and the introduction of a welfare policy such as *zakat* provided a befitting opportunity to Zia to show the people his commitment to their welfare. He undertook this task by instrumentalising Pakistan's Islamic Ideology.

Additionally, the obscurity of the *Shariah* law regarding many aspects of *zakat* law provided an opportunity for the State to offer concessions to various interest groups within the economic and political elite, thereby placating them and maintaining the political and economic status quo. It seems that policy-makers steered *zakat* policy in a way that had the potential of putting the burden on the poorer sections of the society; this practice went grossly against the dictates of Islamic welfare and undermined the purpose of *zakat*. It appears that Zia's motives behind introducing *zakat* were to cement and justify his rule.

General Zia-ul-Haq headed a weak state characterised by a lack of political legitimacy, as he had no justification for staying in power. He had staged a coup replacing the democratically elected Bhutto Government and thereafter had continuously assured the public that he had come to deliver fair democracy. He did not deliver his promise and instead appropriated the demands of the Pakistan National Alliance for the 'imposition of *Nizam-e-Mustafa in Pakistan*' (system of the Prophet).<sup>411</sup> Zia needed political support to give his regime a sound basis to turn his state into a legitimate one.

## Conclusion

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<sup>411</sup> Wilder, "Islam and Political Legitimacy." p. 58

The aim of this chapter was to accentuate the point that the purity of *zakat*, originating from its religious nature, would not prevent it from being politicised when imposed as a policy via an omnipresent political authority. The financial implications of the *zakat* are enticing for a polity (Islamic or otherwise) to steer *zakat* policy in a manner (considering the economic and political leverage granted to the Islamic state by the *Shariah* and considering the unclear injunctions of the *Shariah* regarding *zakat*) that would advance its political ends.

It seems that Zia introduced Islamisation and employed ideological and religious rhetoric to empower his government and secure political legitimacy. The ideological rhetoric meant going back to the *raison d'être* of Pakistan and thus imposing Islamic laws. The religious rhetoric helped to cement his claim to power on the grounds that his was an Islamic state and that he was shaping the society of Pakistan according to the norms of the *Shariah*.

The introduction of *zakat* was meant to increase Zia's power and authority over the people that he ruled, as *zakat* was a powerful instrument to gain the confidence of the masses. *Zakat's* financial appeal for the masses further helped Zia to win the sympathy of the poorer masses of the country that had been downtrodden since the creation of Pakistan owing to the economic policies of successive regimes. However, it appears that *zakat* policy helped to potentially uphold the economic divisions of the society, and reflected the vulnerable politico-economic position of the poor as compared to the rich.

Furthermore, Zia appeared to be active in various ways to influence and control *zakat* policy. The vagueness of the *Shariah* concerning many aspects of *zakat* enabled the Islamic state to shape *zakat* policy to suit its broader political interests. What comes to the forefront

from this chapter is that while forming *zakat* policy the state appeared to have sacrificed *zakat* revenue to appease political allies and to safeguard its interests under the garb of providing welfare and justice to the poor. This process negatively influenced the ideals of welfare, equity and justice in Pakistan, which, according to the Islamists, is better provided under an Islamic economic system than any other.

It is not difficult to conclude that under such circumstances the ability of *zakat* to promote equality and realize welfare and justice in the society might be hindered. However, this chapter has only undertaken a theoretical analysis of the *zakat* Ordinance, which says nothing about the performance of *zakat* on empirical grounds, especially when one is interested in the way *zakat* operated at the grass-roots level. Empirical analyses of *zakat* at its operational stage might still reveal a positive scenario for welfare and justice depending on the commitment of the Islamic state and the *zakat* personnel. The next two chapters examine the revenue and expenditure of *zakat*, and its overall impact on income distribution and the reduction of poverty and income inequality. The significance of *zakat* as a channel of welfare to the poor cannot yet be dismissed entirely.

## Chapter Four

### Analysis of *Zakat* Revenue

#### Introduction

This chapter deals with the revenue side of *zakat*, which is one of the key elements in answering the basic question of the thesis about the effectiveness of *zakat* in delivering its objectives of welfare and justice. The chapter enquires whether *zakat* raises significant revenue and taps the wealth of the rich. It also examines the importance of the Islamic state's commitment to make the *zakat* policy effective.

By posing these questions the chapter attempts not only to test the Islamists' assertions about the capabilities of *zakat* (as stated in Chapter Two), when imposed as a policy, but it also proceeds to show that the imposition of a religious obligation such as *zakat* would not automatically command obedience and compliance from the citizens, unless the state creates trust via positive reputational effects (as stated in Chapter Two) through honouring commitments and demonstrating itself to be fair. The presence of universal concepts and values such as that of *trust* are vital for underpinning the relationship between the state and the individual that would strengthen and compliment the interaction between the two, leading to a smooth policy operation and thus a more effective outcome. Additionally, this chapter unfolds the consequences of the shape of the *zakat* policy as analysed in Chapter Three which showed how the state seemed to have forgo potential *zakat* revenue to keep calm its allies and to preserve its political interests.



This chapter is divided into three sections. Section one conducts an historical investigation on the kind of governments that came to power in Pakistan after its establishment and their ability to demonstrate credible commitment to their declared objectives to the people of Pakistan, and how this affected the development of trust between the state and individuals in Pakistan.

The analysis in section two unfolds at the national aggregate level and then proceeds to the household level. This section answers questions such as who was paying *zakat* and how much. It presents the implications of the presence or absence of trust between the state and the individual for *zakat*. It shows how it affected the claims of the Islamic economists who insist that *zakat* has an immense capability for marshalling resources. They are resolute that due to the religious nature of *zakat*, people will be more willing to pay it than its secular counterpart, as *zakat* will bring the pleasure of *Allah*, which will remove greed from Islamic society. They add that because the *zakat* rate is so low as compared to the heavy burden of income tax, the incentive to evade *zakat* will be very low. Islamists also believe strongly that the incidence of *zakat* should fall on the richer members of an Islamic society because *zakat* is said to be the right of the poor to the wealth of the rich, the payment of which will result in equality among the masses. Additionally, the chapter also examines compliance issues. In other words, it examines the resource mobilisation capability of *zakat*.

As mentioned in Chapter Two, it is in the interest of the state to take steps to demonstrate to the public its commitment to a policy and in the process create trust, which would have positive results for the smooth operation of that policy. Thus, section three examines the behaviour of the Islamic state regarding its commitment to *zakat* and how it carried out its

duty of pursuing Islamic ideals of justice and welfare. The idea is to show how the level of commitment of the Islamic state towards *zakat* affected its performance.

#### **4.1 Historical Analysis of the State/Individual Relationship in Pakistan:**

This section seeks to draw on Pakistan's history to assess the level of trust between the state and the individual (based on the parameters of trust as defined in Chapter Two), which would have important repercussions for the future of *zakat* policy with regard to its performance collection patterns and levels. For this purpose, this section examines political aspects such as military coups, the denial of democracy and self-determination; problems with constitution formation; the repeated abrogation of constitutions; and finally the role of the bureaucracy in Pakistan. All these factors demonstrate the stance of the Pakistani state towards a credible commitment that (as has been stated earlier) would create the basis of trust between the state and the individual. The long-term and cumulative affect of these aspects would be significant for the *zakat* policy.

#### **History of the Machiavellian State in Pakistan**

The history of Pakistan tells the story that almost every regime that came to power in the country after its creation had an agenda other than that of putting public interests first. Collectively these regimes not only failed in fulfilling their foremost duties of delivering a constitution to the newly born nation, but they also displayed considerable contempt for the laws that they finally gave to the country by abrogating one constitution after another. The interplay of the ruling oligarchies was such that the only democratically elected government (that of Zulfikar Ali Bhutto), which came to power 25 years after Pakistan's creation, was never given a chance to complete its tenure.

The path to constitution-making was often tortuous and accompanied by successive upheavals in the nation's political life. The Constituent Assembly of Pakistan was formed on 10 August 1947 to draw up the country's constitution and serve as its first parliament. The years between 1947 and 1958 were marked by political instability and by a failure of the Assembly to perform the task of a federal legislator. The members were insensitive to public opinion and fussed more about minor issues. The business of the Assembly was seldom conducted according to schedule as session programmes were not drawn up in advance, and bills were rushed through during the last days of the session.<sup>412</sup>

However, the Assembly managed to deliver the Objectives Resolution in March 1949, which defined the basic principles of the new state. Seven years of debate, however, failed to produce agreement on fundamental issues such as regional representation or the structure of a constitution. Apparently, it was this impasse that prompted Governor General Ghulam Mohammad to dismiss the Prime Minister and the Constituent Assembly in 1954.<sup>413</sup> This dismissal of the sovereign Constituent Assembly and the Prime Minister Khawaja Nazimuddin was seen to be arbitrary and undemocratic, as Nazimuddin had enjoyed the confidence of the legislature. Although the Governor General's action was not unlawful, it was a palpable infringement of parliamentary conventions.

The move demonstrated downright disregard for the legislative body, which had the sole authority to undertake such an action. Interestingly, the event also underlined the lack of

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<sup>412</sup> A. Husain, *Politics and Peoples' Representation in Pakistan* (Lahore: Ferozsons Ltd., 1972).p. 40

<sup>413</sup> www.country-data.com, *Pakistan Early Constitution Building 1947- 58* (Federal Research Division Library of Congress, 1994 [cited April). Some sources say that Ghulam Mohammad committed this act when he discovered that the Assembly had passed a bill that made the Governor General (the Head of State) subservient to the powers of the Prime Minister. M. A. Rahim et al., *Alien Rule and the Rise of Muslim Nationalism*, ed. I. H. Qureshi, 4 vols., vol. 4, *A Short History of Pakistan* (Karachi: University of Karachi, 1967).

cohesion in the political parties of that time, mainly the Muslim League, as they raised no serious objections. The move established a trend of such behaviour among politicians, marked by a lack of loyalty to the democratic institutions they the politicians were to form, guard and strengthen, and an absolute indifference to the rights and privileges of the Pakistani public. The Muslim League's betrayal of their party leader to the Governor General demonstrated that all activities were inspired by individual self-interest and the quest to stay in power.<sup>414</sup> It would not be incorrect to declare that the ultimate militarisation of Pakistan's political system had its beginnings in this incident. Thus the scene was set for the beginning of the erosion of trust between the leaders and the people. This lack of commitment to traditional parliamentary principles that were to usher in democratic institutions and thus uphold the supremacy of the people of Pakistan plagued the country's formative years. This incident was the beginning of a series of events which were to show the people of Pakistan that those in power were incapable of giving them stable leadership and that their commitment to democratic causes was contingent on their own self-interested political ambition.

The Second Constituent Assembly, inaugurated in July 1955, presented a draft constitution in January 1956. This draft was finally adopted on 29 February 1956 and implemented on 23 March 1956.<sup>415</sup> After nine years of effort, Pakistan finally had a constitution.

However, two and half years after its imposition, President Iskandar Mirza, who had succeeded Ghulam Mohammad as the Head of the State in September 1955, illegally abrogated the Constitution on 7 October 1958, following a military coup and imposed

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<sup>414</sup> Husain, *Politics and Peoples' Representation*.p. 35

<sup>415</sup> Choudhury, *Constitutional Development in Pakistan*.pp. 95-102

martial law. The purported rationale for this action was the corruption of ideals on which Pakistan was founded. The government claimed that due to the political corruption of the parliamentary leaders and the economic and political chaos in the country, there had to be a complete elimination of the existing political order.<sup>416</sup> However, it seems that the real rationale was that Pakistan's first general elections were going to be held in 1959, and Mirza could foresee power sliding out of his hands because it was likely that the elections would have brought politicians from East Pakistan's Awami League into power.<sup>417</sup>

### The Ayubian Leviathan

Against the political backdrop described above, Iskander Mirza declared martial law and appointed General Mohammad Ayub Khan the Commander-in-Chief of the Armed Forces and the Chief Martial Law Administrator. Just three weeks later, Ayub dismissed Mirza and assumed the Presidency of Pakistan. This action formalised the militarisation of the political system in Pakistan.

When Ayub came to power, he declared that his ultimate aim was to restore democracy in the country.<sup>418</sup> However, he never delivered this promise and after three and half years of martial law rule he went on to introduce a new constitution in May 1962. This was to reinforce his authority in the absence of martial law,<sup>419</sup> as it not only provided for a Presidential form of government but the President was the Head of the Executive as well as of the State. Although the Constitution Commission set up by Ayub clearly stated that Pakistan needed a form of government headed by one person but with an independent

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<sup>416</sup> Weekes, *Birth and Growth of a Muslim Nation*.p. 107

<sup>417</sup> Salim, *Iskandar Mirza*.pp. 255-69

<sup>418</sup> Weekes, *Birth and Growth of a Muslim Nation*.p. 111

<sup>419</sup> Ghazali, "Illusions and Reality."Chapter IV, p. 1

legislature exerting a real check, this legislature was not to have the power to meddle with the 'administration of the country'.<sup>420</sup> Therefore, Ayub's constitution did not really allow the most important institution in the country, the legislature (which represents the supremacy of law) to interfere with Ayub's activities. Also, Ayub's economic policies did little to elevate him as a leader in the eyes of the Pakistani public (see section 3.1 in Chapter Three for analysis of Ayub's economic policies).

Ayub Khan relinquished power in the face of civil unrest. He abrogated his own constitution and, instead of handing power over to the Speaker of the National Assembly, as the constitution demanded, he once again defied the law and imposed martial law on 25 March 1969. He passed power over to the Army Commander-in-Chief, General Agha Mohammad Yahya Khan.<sup>421</sup> His actions defied the law of the land and demonstrated open disregard for the liberties of the Pakistani people. Additionally, by not holding elections when promised, he denied the right of choice to the public.

### Bhutto's Leviathan

It was under General Yahya Khan that Pakistan's first general elections were held in 1970. These were to be a turning point in the history of Pakistan. The Pakistan People's Party under the leadership of Zulfikar Ali Bhutto won a majority of seats in West Pakistan, and

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<sup>420</sup> A. Edgar and K. R. Schuler, *Public Opinion and Constitution Making in Pakistan 1958-1962* (Michigan: Michigan State University Press, 1967), p. 183

<sup>421</sup> N. C. Sahni, *Political Struggle in Pakistan* (Jullunder City: New Academic Publishing Co., 1969), p. 105. Also, General Yahya Khan had led Ayub to believe that the army would put down the agitation, eliminate his political opponents and put him back in power in about three months. However, Yahya Khan did not keep his promise to Ayub and held elections in 1970. See, A. Gauhar, *Ayub Khan: Pakistan's First Military Ruler*, 3rd ed. (Oxford: Oxford University Press, 1996), pp. 319-20

the Awami League, under the leadership of Sheikh Mujib-ur-Rehman in East Pakistan (now Bangladesh) won all but 2 seats, i.e. 160, allotted for East Pakistan.<sup>422</sup>

As a consequence of the Federal Government's economic policies towards East Pakistan and the continuous political marginalisation of East Pakistanis (Bengalis), Mujib-ur-Rehman had wanted maximum political autonomy for the provinces, thereby creating greater independence for East Pakistan. Bhutto on the other hand wanted power, even at the cost of a united Pakistan, as he had realised that in a united Pakistan, his chances of acquiring power as Prime Minister were remote.<sup>423</sup>

The perception of the Bengalis was that Yahya Khan (also from West Pakistan) was going to deny the people of East Pakistan the fruits of their electoral victory. This led to an outbreak of violence in East Pakistan, and the Awami League launched a non-cooperation movement throughout the entire province. Due to the civil unrest in East Pakistan, the army took control of the situation on 26 March 1971. This unrest later developed into a full-fledged civil war supported by the Indian army. On 16 December 1971, Pakistani forces surrendered and East Pakistan became independent as Bangladesh.<sup>424</sup>

It would not be wrong to state that the blame for the disintegration of Pakistan lay at the door of the politicians and the army, and that the ruling elite failed to honour the Islamic Ideology of Pakistan as a cohesive force for the Muslims of Pakistan.

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<sup>422</sup> Hussain, *Politics in an Ideological State*.p. 141

<sup>423</sup> G. W. Choudhury, *The Last Days of United Pakistan* (London: Hurst, 1974).pp. 146-7

<sup>424</sup> Ghazali, "Illusions and Reality."Chapter V, p. 1

Bhutto assumed power as the President and the Chief Martial Law Administrator in the new Pakistan on 20 December 1971. He stayed in power for five years on the basis of the 1970 elections. In 1973, he introduced a new constitution and this time it was his turn to acquire maximum possible power. His constitution combined the powers of both the Executive and the Legislature within the office of the Prime Minister.<sup>425</sup> This combined power made him almost akin to a civilian dictator under the garb of a democratic leader.

Bhutto's economic policies have been discussed in section 3.1 in Chapter Three. His policies based on the rhetoric of Islamic Socialism were seen increasingly to be channels through which political patronage could be distributed. Moreover, as mentioned in Chapter Three, Bhutto was losing favour with the *Ulema*. Bhutto's 'un-Islamic personal character' concerned some of the top army officials as well.<sup>426</sup> These were strong political opponents to have and persistent political pressure from them forced Bhutto to hold elections. On 7 January 1977, he announced a schedule for holding elections on a national basis. Although his party won, he was accused of rigging by the opposition and on 4 July 1977, he was overthrown by his own Army Chief of Staff, Zia-ul-Haq. On 3 September 1977, Bhutto was arrested in connection with the murder of Nawab Mohammad Ahmed Khan (the father of Ahmad Raza Qasuri, a party worker and a bitter critic of Bhutto), which had taken place in 1974. This case became the cause of the subsequent Bhutto murder trial and on 18 March 1978, the Lahore High Court, in a controversial judgment, sentenced Bhutto to death by hanging.<sup>427</sup> Former U.S. attorney general Ramsey Clarke, who attended the trial, wrote:

*"The prosecution's case was based entirely on several witnesses who were detained until they confessed, who changed and expanded their confessions and testimony with each*

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<sup>425</sup> Ziring, *The Enigma of Political Development*, p. 121

<sup>426</sup> *Ibid.*, p. 131

<sup>427</sup> Ghazali, "Illusions and Reality," Chapter VII, p. 2



*reiteration, who contradicted themselves and each other, who, except for Masood Mahmood were relating what others said, whose testimony led to four different theories of what happened, absolutely uncorroborated by an eyewitness, direct evidence, or physical evidence.*<sup>428</sup>

So far there is evidence of foul play in the short history of Pakistan: of one political actor against another and of one institution trying to outdo the other in a bid to acquire power. Regardless of the fact that Bhutto's Government could not deliver the promises of his economic policies, and that as a result he had lost the confidence of the public, the fact still remained that he was the democratically elected choice of the Pakistani public (at least of West Pakistan): a fact that the subsequent regime and political opposition did not respect. The hanging of a popularly elected leader is an extremely rare phenomenon in the histories of democracies in the world.

Chapter Three showed how Zia-ul-Haq came to power, how he broke his promise to restore democracy within 90 days of his take over, and how he went back on his word and seven months later imposed martial law, debarring all political activities and parties. Suffice to say that Zia's actions once again deprived the people of Pakistan of their basic civil rights. The execution of a democratic leader and the imposition of martial law did not lay a trustworthy ground for Zia's future rule over Pakistan.

The successive regimes, such as that of Benazir Bhutto and Nawaz Sharif, did not manage to hold on to the office for long. Bhutto was twice dismissed amid charges of incompetence and corruption, once in 1990 after she had come to power in 1988 after winning the general

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<sup>428</sup> R. Clarke, "The Trial of Ali Bhutto and the Future of Pakistan," *The Nation*, August 19-26 1978.

elections, and the second time in 1996, after coming to power in 1993 (after she was allowed to run for office). The government of Nawaz Sharif, which came to power in 1990 and 1997 after winning the general elections, was overthrown amid charges of hijacking and terrorism in a military coup led by General Pervez Musharraf in 1999.

Such actions of corruption, dismissals and coups did not demonstrate that the ruling elite possessed any commitment to establish democracy which would empower the people. It would be fair to say that in Pakistan the extent of corruption has led to a wider concern regarding poor governance, which in turn is responsible for poor economic performance, persistent poverty and subversion of democracy.<sup>429</sup> Amid the fact that political corruption is widely recognised in Pakistan it would be safe to assume that such an environment would mostly breed distrust between the ruler and the ruled.<sup>430</sup> As a consequence even if a policy invokes philosophies held sacred by the intended followers, it would not be entirely unexpected for such a policy to be met with scepticism or resistance.

### The Bureaucratic Leviathan

Apart from the military and political institutions in Pakistan, another institution that played an important role in breaking or creating public trust was the bureaucracy. Due to the enduring absence of democracy, the bureaucracy has been and still is one of the most significant institutions in Pakistan.

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<sup>429</sup> M. H. Khan, "Corruption and Governance in South Asia, Review written for Europa's South Asia 2006 Handbook," (Europa Publications, 2006).p. 5. Khan refers to the South Asian countries in general.

<sup>430</sup> M. H. Khan, "Bureaucratic and Political Corruption in Pakistan", December, 2001, World Bank, p. 1

Each welfare system develops a welfare bureaucracy: government departments with thousands of staff and frameworks of rules and laws to regulate the work. The bureaucracy has been known to be akin to a political institution, comprising pressure groups, authority centres, social elites and decision intermediaries, and Pakistan is no exception. These characteristics of the bureaucracy give it a strategic role in shaping public perceptions of welfare policy. It is thus important that the citizen perceives the bureaucracy to be honest for it to be a positive influence on a policy.

In Pakistan, the bureaucracy does not enjoy a clean record as this group has played its part in contributing to the distrust that the public had in successive governments.<sup>431</sup> After the creation of Pakistan, the army and the bureaucracy continued to decide the boundaries within which economic and political reforms would be attempted. From early on after Pakistan's creation, the bureaucracy was being criticised for the way appointments were made and for elitism. By the Ayubian decade of the 1960s, charges of corruption, nepotism and lack of transparency were being laid at its door. The Ayubian decade epitomised the power of the bureaucracy. It had a central position in the oligarchic structure of the government as its practices were channelled towards serving the interests of the elite rather than the nation.<sup>432</sup> A decade later, Bhutto perceived this power to be threatening and tried to reform the bureaucratic system to restrict its authority. However, Bhutto soon learned to utilise the power of the bureaucracy as appointments were made in order to secure dispersion of support and allegiance to the regime. Thus the system continued to be politicised and infested with discrimination and favouritism.<sup>433</sup>

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<sup>431</sup> S. Mahmood, *Bureaucracy in Pakistan: An Historical Analysis* (Lahore: Progressive Publishers, 1990).pp. 1 & 41

<sup>432</sup> Ibid.pp. 42, 45 & 53

<sup>433</sup> G. A. Jones, "Pakistan: A Civil Service in an Obsolescing Imperial Tradition," *Asian Journal of Public Administration* 19, no. 2 (1997).p. 350

When Zia came to power, he initiated the militarisation of the administration by appointing army officers to higher civil posts.<sup>434</sup> Over the years, the entire Pakistani bureaucracy was shaped largely according to the ideals and whims of just one individual, i.e. Zia, whose dictates had the status of unchallengeable law in the country.<sup>435</sup> The situation did not really change during the successive governments, i.e. from Benazir Bhutto in the late eighties and the early nineties<sup>436</sup> to Nawaz Sharif, who remained in power till 1999.

So far the historical evidence leads to the conclusion that trust between the individual and the state in Pakistan since its creation has been severely undermined. Successive regimes repeatedly made a mockery of those political institutions that were intended to guarantee commitment to democratic governance and exhibited disregard for the pledges that they made regarding the welfare of the Pakistani public. The actions of those in power clearly confirmed that they were not guided by considerations that would be beneficial to the masses but rather were engrossed in their own quest for power. Contingent upon these circumstances, one could predict a general lack of popular consent to abide by state laws and policies.

#### **4.2a Effects of the State/Individual Relationship on *Zakat*:**

This section explores how distrust in the political process and the bureaucracy as examined above affected the revenue performance of the *zakat*. It assesses how this affected the claims of the Islamic economists who are resolute that *zakat* has immense potential to

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<sup>434</sup> F. Heady, *Public Administration: A Comparative Perspective* (New York: Marcel Dekker Inc., 1984).p. 333

<sup>435</sup> Mahmood, *Bureaucracy in Pakistan*.p. 76

<sup>436</sup> Jones, "Pakistan: A Civil Service."p. 343

mobilise resources and that *zakat* will invoke voluntary obligation that the secular taxes, i.e. the Income and Wealth Tax cannot match, as *zakat*, being one of the five fundamentals of Islam, will bestow the blessing of *Allah* upon those who pay. They claim that incentives to pay *zakat* would be strengthened by its low rate. This section tries to test these claims of the Islamists not only against the backdrop of Pakistan's political history, which highlighted the process of the development of the state/individual relationship but equally importantly as a consequence of the shape of the *zakat* policy as examined in Chapter Three.

### **The State of General Taxation in Pakistan**

*Zakat* policy is akin to a tax policy as both involve the state extracting money from the public, and both have financial repercussions for individuals. Due to the conceptual similarity of *zakat* (excluding *zakat's* spiritual rhetoric) with secular taxes such as Income and Wealth Taxes, it will be beneficial to offer a portrayal of the public attitude towards taxes and tax policies in general in Pakistan since its independence, before the section embarks on an analysis of the *zakat*. Tax policies are also a way for the individual to demonstrate his/her trust and confidence in the state that his/her money will be spent in an efficient and trustworthy manner, or to show his/her resistance to a regime in case of distrust. Hence, this exercise is important, as it will provide a benchmark to assess peoples' attitude towards *zakat*.

The analysis of Pakistan's taxation system for the first part of this section will not include *zakat*, as *zakat* is a parallel system of taxation and thus is not part of the secular taxation system and thus not part of the federal budget either.

Graph 4.1

### Revenues of Pakistan



Source: Statistics Division. "50 Years of Pakistan in Statistics 1947-1997." Islamabad: Federal Bureau of Statistics, Government of Pakistan, 1997.

The historical analysis of Pakistan's tax structure reveals the typical traits of a developing country. Overall fiscal effort has been low and the entire system can be described as cumbersome and outdated, a fact duly acknowledged by Zia himself in an address to the nation.<sup>437</sup>

The state of affairs is reflected in graph 4.1 above, which shows the tax and total revenues as a percentage of GDP. The historical pattern of total revenue shows that total receipts rose on trend across the period from 1950 to 1994. In nominal terms, total revenues rose from 1.1 billion rupees (an estimated 8% of GDP) in 1953 to 324 billion rupees (roughly 20% of GDP) in 1994. This corresponds to an average annual growth rate of 14.4%.

The graph demonstrates that tax/GDP ratio also rose during the period between 1953 and 1994. In nominal terms, tax revenues rose from 0.827 billion rupees (an estimated 6% of

<sup>437</sup> Directorate of Films and Publication, "Introduction of Islamic System in Pakistan: Address to the Nation, President General Mohammad Zia-ul-Haq (1979)."

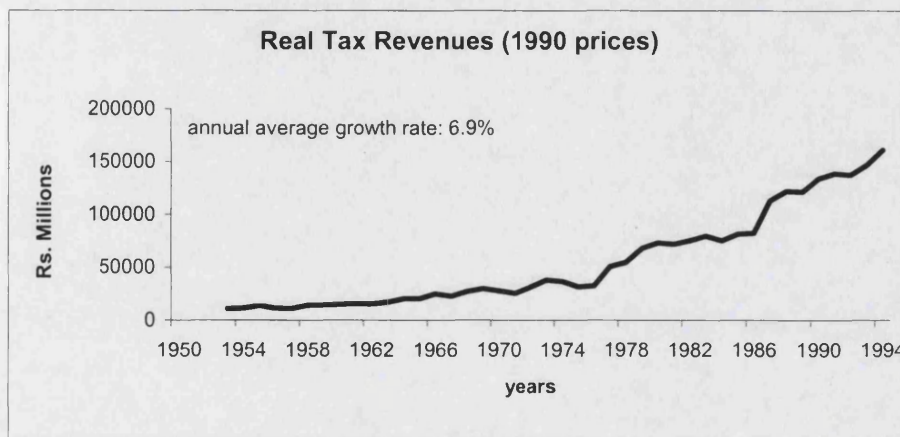
GDP) in 1953 to 246 billion rupees (about 16% of GDP) in 1994, corresponding to an average annual growth rate of about 14.5%. Considering the average annual growth rate of total revenues, the total tax growth rate is significant. However, if nominal tax revenues are adjusted by the GDP deflator (base 1990), the average annual growth rate of tax revenues comes down to 6.9% (see graph 4.2 below). This percentage is still considerable and shows the tax structure to be buoyant as the real average GDP growth rate for the same period was only 4.5%. However, this phenomenon could be contextualised easily by stating that in the first years of Pakistan's independence, the tax system was of rudimentary nature, therefore the very low level starting point created an impressive sense of tax revenue growth.<sup>438</sup>

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<sup>438</sup> The partition of India and the creation of Pakistan in 1947 left Pakistan with very low revenues. Most direct and indirect taxes were generated in what is now India. Most of the industrial ports where customs duties were collected went to India, and excise duties were collected at places of manufacture, which were also in present-day India. Pakistan had an acute lack of economic and industrial infrastructure with the capacity to bear taxes. The important taxes in the newly created Pakistan were income tax, corporation tax, customs duties, central excise duties and the sales tax. From 1948 to 1977 no new taxes were introduced. See Planning Commission, "The First Five Year Plan 1955-60," ed. Government of Pakistan National Planning Board (The Manager of Publications, Karachi, 1957). pp. 8-12

**Graph 4.2**

**Pakistan Tax Revenues at Constant Prices**



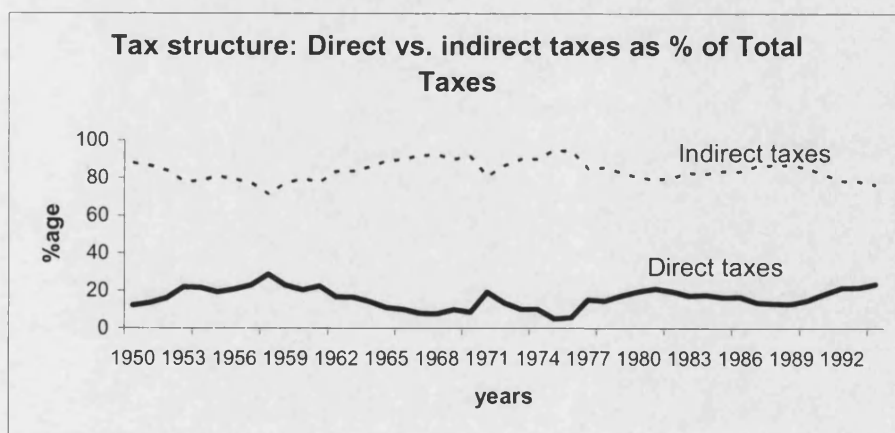
Source: Statistics Division. "50 Years of Pakistan in Statistics 1947-1997." Islamabad: Federal Bureau of Statistics, Government of Pakistan, 1997, [www.datastream.net](http://www.datastream.net).

The country's tax system did not tap the wealth of rich individuals and companies, as it was heavily weighted towards indirect taxes. Indirect taxes (customs duties, sales tax and excise duties) represented the lion's share of tax revenue, while direct taxes (income tax, wealth tax, corporate tax and capital value tax) represented 16% of the total taxes on average (see graph 4.3 below).



Graph 4.3

Pakistan Direct and Indirect Tax Take



Source: Statistics Division. "50 Years of Pakistan in Statistics 1947-1997." Islamabad: Federal Bureau of Statistics, Government of Pakistan, 1997.

Direct tax bases were narrow due to wide-ranging exemptions and concessions. A major example of this would be the exclusion of the agricultural sector from any levy of tax. For example, in 1986 there were an estimated 3 million households in the agricultural sector whose incomes were above the then current income tax exemption limit of Rs.24000,<sup>439</sup> but these households could not be taxed due to these exemptions. The result of such exemptions was that the tax rates had to be pitched at high levels, which in turn created a vicious circle of further tax base erosion and higher tax rates.<sup>440</sup>

Tax administration in Pakistan also typified a developing country, i.e. it was archaic, the tax administration personnel did not possess the appropriate skills and there was widespread dependence on manual rather than automated functioning. Procedures of assessment and

<sup>439</sup> Report of a Working Group, "Tax System in Pakistan: A Critical Evaluation and Recommendations for Change", May/June, 1986, Institute of Policy Studies, Islamabad p. 9. Also, tax holidays were provided to new industrial undertakings ranging from five to seven years. There were other exemptions, for example, on salaries of Pakistanis employed by foreign governments, foreign employees of educational institutions, casual receipts, the income of writers, sportsmen, schools and hospitals and doctors in rural areas. Also see, A. Khan, "National Resource Scenario: An Overview", 20th November, 1996, p. 7

<sup>440</sup> H. A. Pasha, "Political Economy of Tax Reform: The Pakistan Experience," *Pakistan Journal of Applied Economics* 11, no. 1&2 (1995).p. 129

collection of taxes have been both inconvenient and time-consuming. Furthermore, tax laws have been very complicated with provisos, stipulations and exemptions marked by ambiguities and irrationalities. Pakistan lacked several factors that were necessary to make a tax system credible and effective, such as commercial accounting and proper record-keeping. Furthermore, the presence of a large number of small traders and self-employed persons created additional challenges for the fiscal authorities.<sup>441</sup> The fact that most businesses were run by families in Pakistan gave these businesses an easy way to manipulate the accounts and dodge taxes.<sup>442</sup>

A major reason for the non-payment of taxes to the state was the public perception that the tax bureaucracy was corrupt, i.e. that they were complicit in the abuse of public office and that they held private gain or the benefit of a group with which they might identify above their duty to the public (a sentiment that confirms our earlier comments of Pakistan's bureaucracy). According to a survey carried out by the Task Force on the Reform of Tax in 2001, on a scale of 1-5, taxpayers worried about corruption at an average of 4.2. The public seemed to think that 82% of the Government organisations were corrupt and regarded the Income Tax Department as the fourth most corrupt institution.<sup>443</sup> 89% of the respondents of the survey considered that all previous initiatives to reduce corruption were complete failures.<sup>444</sup> There has been widespread concern among the public over the lack of accountability regarding the quality of work and the conduct of the officials.<sup>445</sup> This public

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<sup>441</sup> A. Khan, "Reform Issues in Tax Policy and Tax Administration for Self-reliant Development," *The Pakistan Development Review* 37, no. 4 Part II (1998).pp. 1105-1114

<sup>442</sup> Mayer, "Islamisation and Taxation in Pakistan."p. 66

<sup>443</sup> The Task Force on Reform of Tax Administration, "Reform of Tax Administration in Pakistan", 14 April, 2001, pp. 163-5. The Police came first in the survey, followed by the Lower Courts and the Water and Power Developmental Authority.

<sup>444</sup> Ibid.p. 166

<sup>445</sup> Tax Reforms Commission, "Resource Mobilization and Tax Reforms Commission", August, 1994, Government of Pakistan, p. 83

perception of the conduct of the tax departments has raised negative individual attitudes towards taxation and increased suspicion that the public derives little benefit from the taxes paid, which did little for trust in the country's tax system.<sup>446</sup>

The state did try to reform the taxation structure in the face of stagnant policies and low levels of compliance. In 1975, the government sought to improve the taxation system and introduced several structural changes. A critical re-examination of rebates and relief and revision of tax rates was conducted and a systematic approach to enlist new taxpayers was introduced.<sup>447</sup> The method adopted was to enhance the quality and the effectiveness of tax enforcement procedures, and increase the statutory obligations of the taxpayers. This was in turn exercised via externally and internally geared survey operations. Income tax inspectors went from door to door with surveys to identify new taxpayers, and internally geared tax surveys uncovered false declarations by existing taxpayers.<sup>448</sup> The introduction and development of self-assessment in 1979 contributed substantially to the rapid growth of income tax revenues. Income tax receipts surged from Rs.2946 million in 1977-78 to Rs.13407 million in 1988 at current prices<sup>449</sup> (which is Rs.3443.91 million for 1977-78 and Rs.7754.57 million for 1988 at 1980 prices). Furthermore, a significant broadening of the income tax base had occurred in the years 1979-88. Also, many pending assessments were being completed.<sup>450</sup>

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<sup>446</sup> A. Sultan et al., "Final Report", 31st December, 1986, National Tax Reform Commission, Karachi p. 11

<sup>447</sup> Planning Commission, "The Sixth Five Year Plan 1983-88," ed. Government of Pakistan Planning Commission (The Manager of Publications, Karachi, 1983), p. 53

<sup>448</sup> Sultan et al., "National Tax Reform Commission", p. 124

<sup>449</sup> Statistics Division, "50 Years of Pakistan in Statistics 1947-1997," ed. Federal Bureau of Statistics (Islamabad: Government of Pakistan, 1997).

<sup>450</sup> Central Board of Revenue, "Central Board of Revenue Year Book", 1987-88, Government of Pakistan, Islamabad p. 18

However, despite increased efforts the tax system remained inadequate throughout the entire period of analysis. Modest spurts of reform and enforcement did little for the basis of trust between the state and the individual, as can be assessed by the survey conducted in 2001 (mentioned earlier) which shows that the popular public attitude was one of distrust towards the bureaucrats, who were perceived to be corrupt and inefficient in conducting their duties. Such a situation was conducive to rampant tax evasion and a lack of support for state policies. The situation of taxation in Pakistan presented here provides a point of reference for the comparison with the performance of *zakat* in Pakistan.

### **Zakat Revenue in Pakistan**

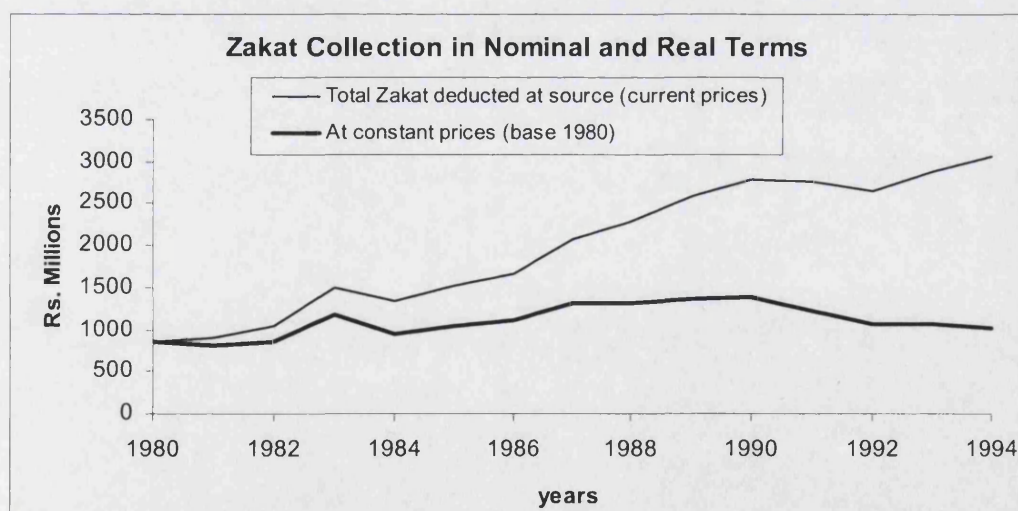
This section evaluates the pattern of *zakat* revenue in Pakistan from the time of its imposition in 1980 to 1994. According to table 4.1 and graph 4.4 below, *zakat* revenue as a percentage of GDP had been quite low, lingering at an average of 0.3%. This implies that *zakat's* contribution for resource mobilisation in the economy was not very promising, in contradiction to the aspirations of the Islamists.

**Table 4.1**

Total Zakat Collected (Rs. Million)				
(Rs. Million)	Total Zakat Collected (current prices)	Deflator (1980)	At constant prices (zakat collected/deflator)	% of GDP
1980	844.3	1.00	844.3	0.4
1981	902.4	1.11	812.8	0.3
1982	1027.0	1.21	845.7	0.3
1983	1490.0	1.28	1165.5	0.4
1984	1334.8	1.40	952.2	0.3
1985	1521.0	1.47	1038.0	0.3
1986	1658.9	1.51	1096.0	0.3
1987	2069.5	1.58	1308.2	0.4
1988	2279.4	1.73	1314.5	0.3
1989	2573.2	1.88	1366.6	0.3
1990	2792.0	2.00	1392.9	0.3
1991	2770.0	2.27	1222.3	0.3
1992	2658.4	2.49	1065.6	0.2
1993	2884.4	2.71	1064.0	0.2
1994	3073.2	3.06	1004.5	0.2

Source: [www.datastream.net](http://www.datastream.net), State Bank of Pakistan Annual Reports 1980 to 1995 and Author's own calculations.

**Graph 4.4**



Source: Derived from table 4.1.

The above table and graph demonstrate that *zakat* revenue was on the increase if one looks at these numbers in current prices. This pattern is replicated for constant prices as well, but

only till 1990, as after that one observes a trend of decrease in *zakat* revenue. Whereas the increase in *zakat* collection in constant prices from 1980 to 1990 had been 6% on average, the decrease from 1990 to 1994 was an average 7.5%. The following analysis evaluates *zakat* collection by type of asset.

#### Zakat Collection by Type of Asset

Table 4.2 and graph 4.5 and table 4.3 and graph 4.6 below reveal that *zakat* revenue receipts from savings accounts had been most significant as compared to other assets for the entire period. However, these receipts from the savings accounts plunged from a high of 77.9% in 1983-84 to 55.8% in 1987-88 and to just 49.2% in 1990-91 of the total *zakat* collected.

**Table 4.2****Zakat Revenues (1980-1994) by Assets (Rs. Million)**

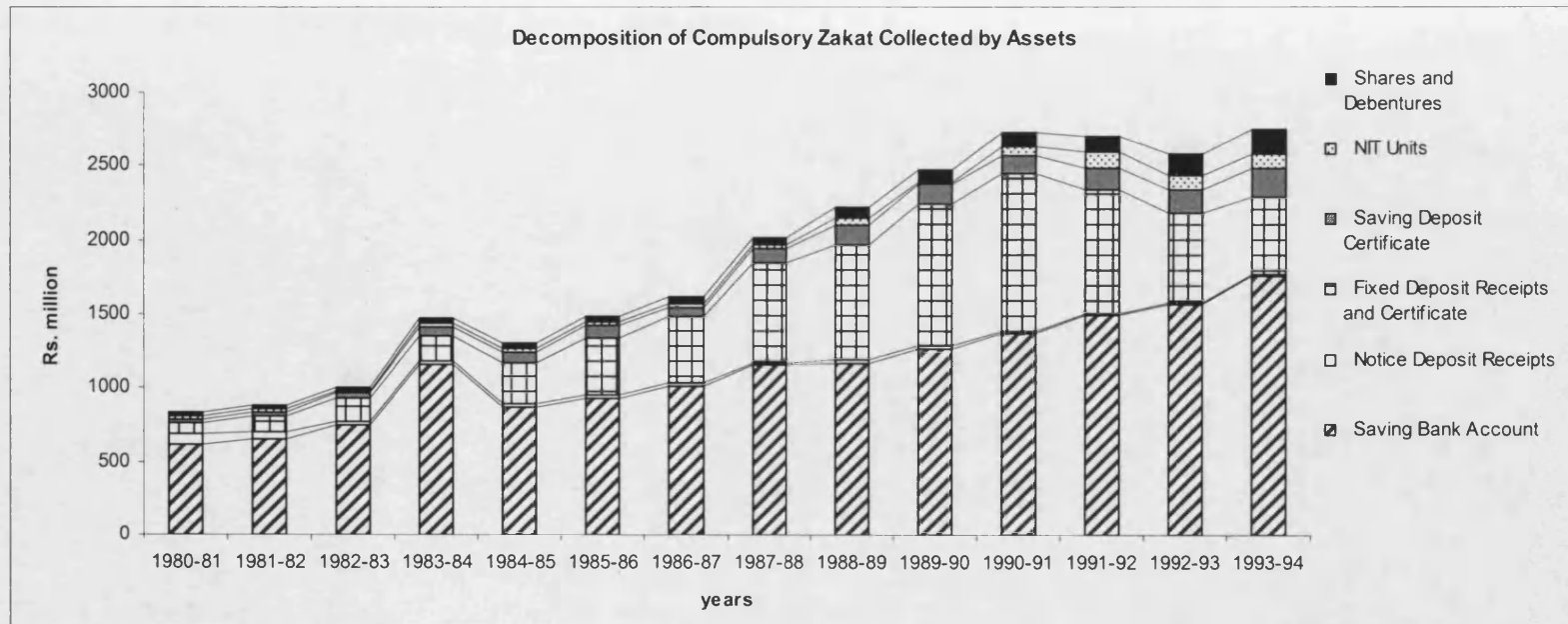
Type of Asset	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Saving Bank Account	618.2	658.0	752.0	1162.0	869.0	937.0	1022.1	1156.0	1178.7	1273.2	1376.3	1496.3	1567.5	1767.4
Notice Deposit Receipts	70.9	39.0	23.0	22.0	24.0	22.8	12.3	17.3	14.4	17.1	9.5	12.2	14.0	9.8
Fixed Deposit Receipts and Certificate	76.1	112.0	151.0	170.0	279.0	379.7	452.7	674.7	776.9	963.6	1068.7	834.7	606.8	527.0
Saving Deposit Certificate	22.9	30.0	36.0	62.0	79.0	82.7	63.8	97.3	138.5	134.8	118.1	152.6	161.8	191.5
NIT Units	19.6	20.0	14.0	19.0	22.0	25.9	25.2	27.3	43.5	2.6	65.9	99.4	93.5	98.8
ICP Mutual Funds	1.9	1.0	3.0	3.0	3.0	2.9	2.9	2.9	1.7	3.0	2.9	3.2	3.5	2.9
Government Securities	1.0	1.0	1.0	1.0	1.0	1.6	1.3	1.0	1.0	0.6	0.4	1.0	1.9	1.0
Shares and Debentures	25.2	25.0	30.0	35.0	36.0	40.7	47.9	53.6	75.1	84.5	100.4	114.0	142.6	164.5
Annuities	0.1						0.1	0.2	0.1				0.3	0.2
Life insurance Policies	3.0	5.0	5.0	6.0	6.0	8.6	8.1	9.2	10.8	12.2	13.9	15.6	18.9	21.0
Provident Funds	5.6	11.0	11.0	11.0	14.0	19.1	22.5	30.1	38.7	81.6	35.9	41.2	47.6	60.1
<b>Total Zakat deducted at source</b>	<b>844.3</b>	<b>902.0</b>	<b>1026.0</b>	<b>1491.0</b>	<b>1333.0</b>	<b>1521.0</b>	<b>1658.9</b>	<b>2069.6</b>	<b>2279.4</b>	<b>2573.2</b>	<b>2792.0</b>	<b>2770.2</b>	<b>2658.4</b>	<b>2844.2</b>
Voluntarily Paid Zakat	1.6	2	1	1	2	1.7	1.4	2.4	3.5	3.5	5.6	8.3	7.7	7.4
Other Receipts								0.3	1.8	0.8	0.6	0.2	1.7	1804.1
<b>Total Zakat</b>	<b>845.9</b>	<b>904.0</b>	<b>1027.0</b>	<b>1492.0</b>	<b>1335.0</b>	<b>1522.7</b>	<b>1660.3</b>	<b>2072.3</b>	<b>2284.7</b>	<b>2577.5</b>	<b>2798.2</b>	<b>2778.7</b>	<b>2667.8</b>	<b>4655.7</b>

... Negligible

Source: State Bank of Pakistan, Annual Reports, 1980 to 1995, Karachi.

Other receipts: This account is to be credited with all other receipts which on account of their nature cannot be directly credited to any of the above specified accounts. Central Zakat Administration June 1982, The Zakat Manual, p. 102, Ministry of Finance, Government of Pakistan, Islamabad.

**Graph 4.5**



Source: Derived from table 4.2.



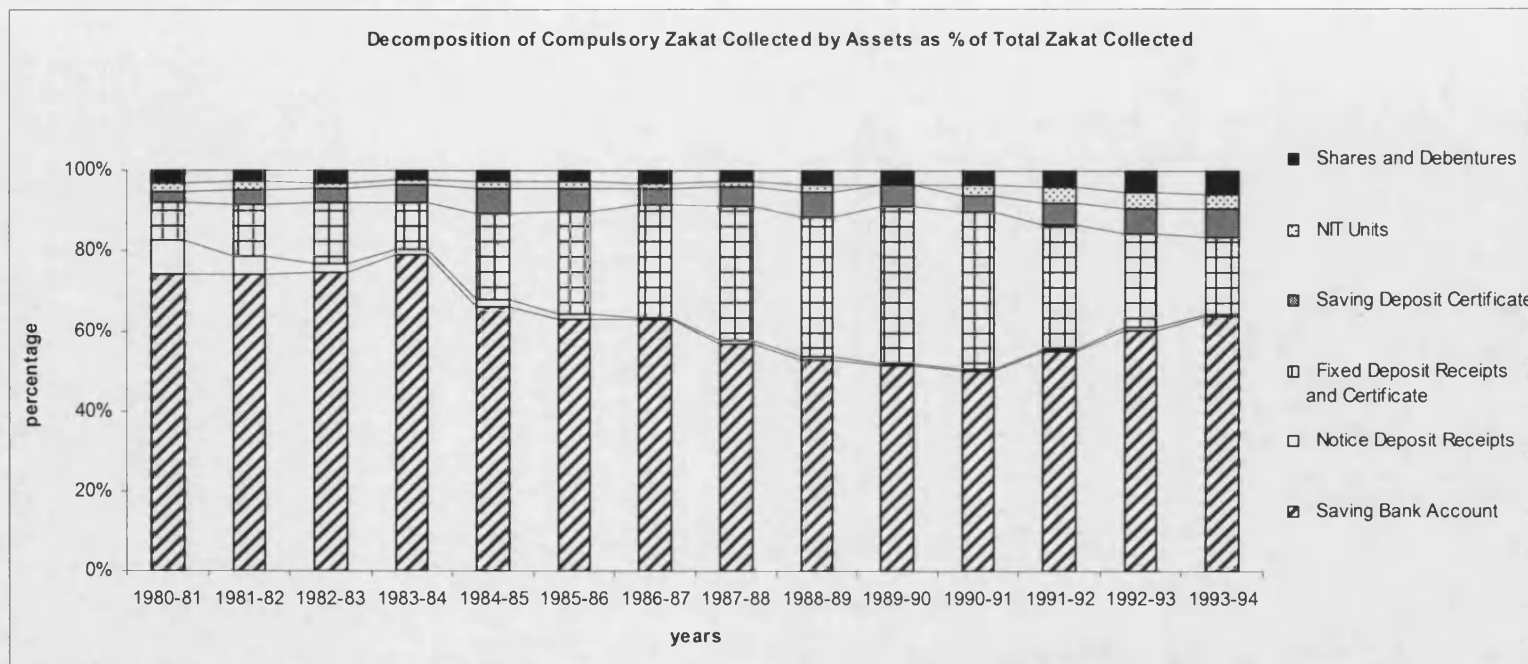
Table 4.3

Percentage of Total *Zakat* Revenues by Assets (1980-1994)

Type of Asset	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Saving Bank Account	73.1	72.8	73.2	77.9	65.1	61.5	61.6	55.8	51.6	49.4	49.2	53.8	58.8	38.0
Notice Deposit Receipts	8.4	4.3	2.2	1.5	1.8	1.5	0.7	0.8	0.6	0.7	0.3	0.4	0.5	0.2
Fixed Deposit Receipts and Certificate	9.0	12.4	14.7	11.4	20.9	24.9	27.3	32.6	34.0	37.4	38.2	30.0	22.7	11.3
Saving Deposit Certificate	2.7	3.3	3.5	4.2	5.9	5.4	3.8	4.7	6.1	5.2	4.2	5.5	6.1	4.1
NIT Units	2.3	2.2	1.4	1.3	1.6	1.7	1.5	1.3	1.9	0.1	2.4	3.6	3.5	2.1
ICP Mutual Funds	0.2	0.1	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Government Securities	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Shares and Debentures	3.0	2.8	2.9	2.3	2.7	2.7	2.9	2.6	3.3	3.3	3.6	4.1	5.3	3.5
Annuities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Life insurance Policies	0.4	0.6	0.5	0.4	0.4	0.6	0.5	0.4	0.5	0.5	0.5	0.6	0.7	0.5
Provident Funds	0.7	1.2	1.1	0.7	1.0	1.3	1.4	1.5	1.7	3.2	1.3	1.5	1.8	1.3
<b>Total Zakat deducted at source</b>	<b>99.8</b>	<b>99.8</b>	<b>99.9</b>	<b>99.9</b>	<b>99.9</b>	<b>99.9</b>	<b>99.9</b>	<b>99.9</b>	<b>99.8</b>	<b>99.8</b>	<b>99.8</b>	<b>99.7</b>	<b>99.6</b>	<b>61.1</b>
Voluntarily Paid Zakat	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.2
Other Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	38.8
<b>Total Zakat</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Derived from table 4.2.

**Graph 4.6**



Source: Derived from table 4.3.

The reason for such a performance was the exemption clauses that people used to avoid paying *zakat*. These included transferring funds from their savings accounts to current accounts (as *zakat* is not deducted from current accounts) a few days before the first of Ramadan, the day when *zakat* was to be deducted by the account-holding institutions. According to one national newspaper, in 1995 bank account balances had lowered by 1,200 per cent on the eve of Ramadan.<sup>451</sup> Additionally, it was common practice to submit an affidavit that declared the individuals to be followers of a religious faction such as *Fiqh Jafferia (Shias)*, which made them exempt from the payment of *zakat*. Non-*Shias* saw this concession to the *Shias* as a loophole in the law, so *Sunnis* also declared themselves as *Shias* to avoid *zakat*.<sup>452</sup> Unfortunately, data on the number of declarations filed and the number of transfers is impossible to obtain. According to a newspaper source, the exemption from compulsory deduction of *zakat* on the basis of faith and *fiqh* has been extensively abused.<sup>453</sup> This source reported that the bureaucrats were no exception to this malpractice as they were also guilty of filing bogus affidavits declaring themselves as belonging to *Fiqh Jafferia* in order to evade *zakat*.<sup>454</sup>

The World Bank prepared a rough estimate of the amount of *zakat* revenue that appeared to be due, based on balances reported by the State Bank of Pakistan as of the end of December 1993. They took the two main categories of assets subject to *zakat*, i.e. savings accounts (personal) and fixed deposits (personal) and applied the 2.5 percent *zakat* rate to these balances, and came up with expected yields of Rs.3,494 million and Rs.1,268 million respectively. The corresponding amounts actually collected in 1993/94 were Rs.1,767

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<sup>451</sup> Staff Reporter, *The Muslim*, 5 February 1995.

<sup>452</sup> The researcher's own experience at the Societe Generale Bank, Lahore, during 1993-96 confirms this point. Also, World Bank, "Pakistan Poverty Assessment", 25th September, 1995, World Bank Group, p. 36

<sup>453</sup> Staff Reporter, "Evading Zakat."

<sup>454</sup> Staff Reporter, "Top Bureaucrats Trying to Evade Zakat Deduction," *News*, 1st February 1995.

million and Rs.527 million respectively (see table 4.2), i.e. less than 50% of the expected yields, suggesting that the proportion of people who withdrew deposits or declared themselves exempt was considerable.<sup>455</sup>

The situation with the Notice Deposit Receipts indicated that they had been on a constant decline for the entire period. They started with 8.4% of total *zakat* revenue in 1980-81 but then declined, becoming a negligible share of total *zakat* revenue by the late 1980s. Receipts of *zakat* from this asset fell by an average 6.1% per annum in nominal terms.

*Zakat* revenue from Fixed Deposit Receipts and Certificates were the second largest source of *zakat* revenues, and were increasing during 1980-91. They rose from a share of 9.0% in 1980 to a peak of 38.2% in 1990-91, but these too gradually started to decline, falling to only 11.3% in 1993-4. The liberalisation of foreign exchange policy has been seen to be a potential cause of this decline from 1991-93. Apparently, this measure encouraged people to convert their savings into foreign currency, as foreign currency accounts are exempt from the payment of *zakat* under the *Zakat and Ushr Ordinance*.<sup>456</sup> *Zakat* receipts from Saving Deposit Certificates had been showing a gentle rising trend with their share of total *zakat* receipts climbing from 2.7% in 1980 to 6.1% in 1988-89, but then started to dwindle till the end of the period in 1993-94.

*Zakat* yield from NIT Units (National Investment Trust Units) had also mostly been on the increase with the exception of 1989-90, when its share fell to 0.1% from 1.9% in 1988-89. From 1990-91 onwards the increase in NIT Units had been pretty impressive unlike other

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<sup>455</sup> World Bank, "Pakistan Poverty Assessment", p. 36

<sup>456</sup> Shirazi, *System of Zakat in Pakistan*.p. 34

government-issued debt. *Zakat* receipts from ICP (Investment Corporation of Pakistan) Mutual Funds and also Government Securities together lingered at around 0.1% of total *zakat* receipts on average for the entire period. The increase in *zakat* receipts for shares and debentures of private and public companies was quite impressive, as they increased at the rate of almost 40% annually. There were no receipts for *zakat* from annuities for most of the years, and for the years in which this asset did manage to raise some *zakat*, the revenue was insignificant.

Yields from Life Insurance policies and Provident Funds grew by 18 million rupees and almost 56 million respectively from 1980-81 to 1993-94. However, their relevance was never significant as together their share of total *zakat* revenue was 1.9% on average for the entire period.

During these years, *zakat* receipts from reported voluntary sources had been negligible, averaging around 0.2%. The government was aware of the importance of collecting voluntary *zakat* as it represented the consent of the people in paying it, thus demonstrating its acceptance as a state imposition. For this purpose, in 1982 the government raised its concern in making the voluntary *zakat* payment system more effective.<sup>457</sup> However, it seems that it did not make a concerted effort towards raising voluntary *zakat* as its payment averaged at 4.4% of total *zakat* revenues. Mohammad, in his 1988 study of *zakat* in Pakistan, held that very few LZCs collected any voluntary *zakat*.<sup>458</sup>

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<sup>457</sup> markazi zakat council, "nizam-e-zakat ki kargardagi aur ushr ka nifaaz, markazi aur suba-i-counsilon ka mushtarrika ijlaas, khitaab sadar general mohammad zia-ul-haq, reportain, sifarishaat aur faisale," ed. markazi zakat intizamia (Islamabad: vizarat-e-khazana, 1982).p. 25

<sup>458</sup> Mohammad, "Evaluation of nizam-e-zakat and ushr in Pakistan", p. 31

In January 1992, a high-ranking Committee was set up to review the *zakat* system. The Committee's report openly admitted the lack of public trust in *zakat* policy,<sup>459</sup> and it expressed apprehension regarding the trivial amounts of voluntary *zakat* collection. For this purpose it proposed the creation of credibility in the system by projecting, with greater vigour, the activities of the Central and Provincial *Zakat* Administration, a move that was supposed to motivate *zakat* donation.<sup>460</sup> (The last section of this chapter will deal with the attitude and the commitment of the state with regards to promotion of *zakat* policy in detail). The fact that such an action was deemed necessary twelve years after the imposition of *zakat* indicated that individual trust in the state's administration of *zakat* was low, the evidence of which reflected in the lethargic condition of *zakat* voluntary payment to the Government.

However, there was sharp rise in *zakat* deposits under the category of other receipts in 1993-94. This category represents receipts that cannot be categorised under any of the 11 asset classes or even as voluntary *zakat* and represents grants and donations from charitable organisations or foreign governments. The year 1993-94 had recorded a one-off sum of Rs.1804 million (equivalent to 63% of compulsory *zakat* revenues), which was a huge upward shift from its usual pattern of almost zero receipts. The Economic and Business Review detailed this as follows:

'No official explanation was given for this sudden jump but according to State Bank's Annual Report the major component was 'Other Receipts'. *Zakat* collection under this particular head had remained very nominal in the past, and was a paltry Rs.1.7 million in

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<sup>459</sup> Finance Division & Central Zakat Administration, "Report of the Committee Appointed by the Prime Minister to Review the Existing System of Zakat and Ushr," (Islamabad: Finance Division & Central Zakat Administration, 1992).p. 8

<sup>460</sup> Ibid.p. 10

1992-93. However, during 1994-94, collection under the head 'Other Receipts' shot up to Rs.1804.1 million which was nearly 40 percent of the total collection of Rs.4.6 billion.<sup>461</sup>

Considering that *zakat* on these assets was deducted at source and not collected via self-assessment, the negative scenario reveals the pro-activeness of the individual in avoiding the payment of *zakat*. Deducting *zakat* at source on the chosen eleven assets was supposed to provide an easy form of tax collection for the Government. It was intended to ensure easy monitoring and control over *zakat* payments for the authorities and a high level of compliance. It was the easy way for the Government to make people comply with *zakat* payment.<sup>462</sup> However, the above analysis revealed the eagerness of the individuals to avoid *zakat* via loopholes in the *zakat* law, which is a clear indication of not only a lack of popular commitment to the *zakat* system but also demonstrates the suspicion of the individual towards the Islamic State.

The above study indicates the level of co-operation and compliance by the individual in the payment of *zakat* to the state. The analyses also showed the unimpressive performance of *zakat* in relation to resource mobilisation. This state of affairs is in direct contradiction to the ideals of Islamic economists who, as noted in Chapter Two, had declared that not only *zakat* would be a major source of resource mobilisation, but also that the incentive to evade *zakat* would be very low due to its low rate.

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<sup>461</sup> I. H. Burney, "Zakat collection doubles over the previous year," *Economic and Business Review*, October 29 1994.

<sup>462</sup> Withholding tax was introduced in Pakistan in 1979 and has since been an important tool for Pakistan's taxation revenue as it is used to extend the coverage of income tax to various forms of capital. Tax Reforms Commission, "Resource Mobilization and Tax Reforms", p. 52. See also, Central Board of Revenue, "Central Board of Revenue Year Book", 1995-96, Government of Pakistan, Islamabad p. 54

Another assertion of the Islamists, stated in the beginning of this section, was that *zakat*, being one of the five fundamentals of Islam, will bestow the blessing of *Allah* upon those who pay it and thus its religious character will invoke a voluntary obligation that secular taxes such as Income and Wealth Tax cannot match. The following analyses undertake to assess the accuracy of this assertion.

### Zakat, Income and Wealth Tax

Public attitudes towards taxation in general have already been commented upon. It is nonetheless interesting to compare *zakat* with secular taxation to test the assertions of the Islamists who insist that due to the religious nature of *zakat*, people would be more willing to pay it than its secular counterpart (i.e. Income and Wealth Tax), as *zakat* will bring the pleasure of *Allah*. Although a detailed comparison of *zakat* with Income Tax is not feasible due to the differences in their nature and the diversity of their tax base,<sup>463</sup> exemptions and rates, it would be interesting to place *zakat's* fiscal effort next to that of its secular counterparts to assess this claim.

It is appropriate to start with the comparison of *zakat* revenue with that of Wealth Tax as these are more akin to each other, in the sense that both are levied on stock of wealth, they share the same rate of levy i.e. 2.5%, and their base is somewhat similar.<sup>464</sup> The 2.5% rate

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<sup>463</sup> Income tax is levied on salaries, interest on securities, income from residential property, profits and gains of business or profession or vocation, capital gains and income from other sources of individuals, companies and partnership firms. Central Board of Revenue, "CBR Year Book (1987-88)", p. 12

<sup>464</sup> The Wealth Tax had been a part of the country's tax structure since 1963. Wealth Tax rates were progressive, ranging from 0.24% to 2.5%. It was levied on immovable property such as commercial property and more than one residential property, while movable assets included jewellery and vehicles. This tax was actually meant to supplement the incomplete coverage of capital income under income tax. It was imposed on the net worth of an individual. This net worth meant the amount by which the aggregate value of all the assets belonging to a taxpayer exceeded all the debts owned by him on the valuation date, which was generally June 30 each year. Private limited companies and registered firms paid it on non-agricultural immovable properties at a similar rate of 2.5% held for the purpose of sale or letting. Ibid.p. 15. Exemptions from Wealth Tax included, one self-occupied residential house, assets created out of foreign remittances, foreign exchange



of the Wealth Tax is an interesting coincidence with the rate of *zakat*, but it is not clear from where this rate was derived.

According to table 4.4 and graph 4.7 below, *zakat* is definitely outperforming the Wealth Tax, as *zakat* is raising 0.2 percentage points more than Wealth Tax on average. However, judgement in favour of *zakat* should be cautionary. The reason being according to the *Zakat Ordinance*, 'Under the Wealth Tax Act, 1963 (XV of 1963), his assets in respect of which *zakat* or contribution in lieu thereof has been deducted at source during the year relevant to that assessment year, shall be excluded from his taxable wealth'.<sup>465</sup> An individual was to provide a receipt to the taxing agencies as a proof of his payment of *zakat* to be able to get exempted from the payment of the Wealth Tax. This implied that resources from the Wealth Tax were being directed to *zakat*.

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deposits, furniture, other household goods and utensils, wearing apparel intended for personal or household use, necessary tools and instruments for the profession. Sultan et al., "National Tax Reform Commission", p. 31. Exemptions were also made on drawings/paintings/works of art or scientific collections of national, scientific or historic interest, copyrights/patents and immovable property held in trust for charitable purposes, chambers of commerce and wealth owned by diplomats. Central Board of Revenue, "CBR Year Book (1995-96)", p. 91

<sup>465</sup> *Zakat and Ushr Ordinance, 1980*.p. 34

Table 4.4

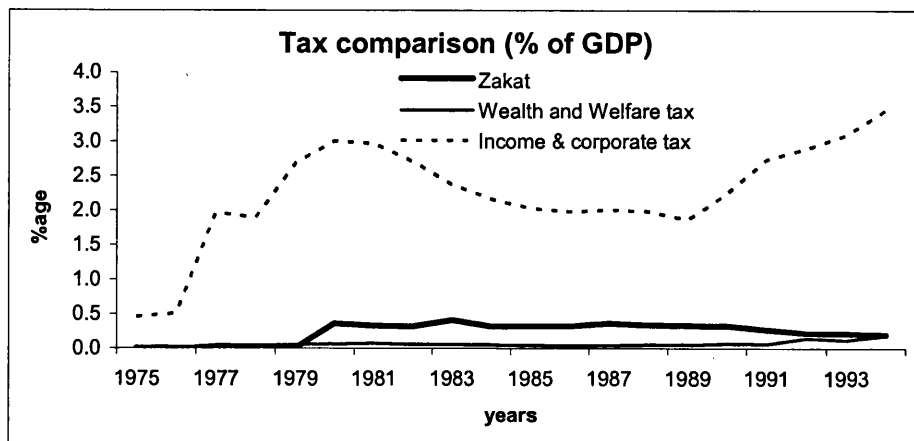
**Comparison of Zakat, Wealth and Income Taxes**

Years	Total Zakat Deducted at Source		Wealth and Welfare Tax		Income and Corporate Tax	
	current prices	% of GDP	current prices	% of GDP	current prices	% of GDP
1975	-	-	0	0.0	509	0.5
1976	-	-	0	0.0	662	0.5
1977	-	-	61	0.0	2946	2.0
1978	-	-	66	0.0	3340	1.9
1979	-	-	97	0.0	5225	2.7
1980	844	0.4	145	0.1	7028	3.0
1981	902	0.3	188	0.1	8250	3.0
1982	1027	0.3	180	0.1	8751	2.7
1983	1490	0.4	205	0.1	8621	2.4
1984	1335	0.3	230	0.1	9071	2.2
1985	1521	0.3	190	0.0	9592	2.0
1986	1659	0.3	187	0.0	10200	2.0
1987	2070	0.4	235	0.0	11500	2.0
1988	2279	0.3	327	0.0	13407	2.0
1989	2573	0.3	391	0.1	14337	1.9
1990	2792	0.3	600	0.1	19211	2.2
1991	2770	0.3	628	0.1	27913	2.7
1992	2658	0.2	1744	0.1	35018	2.9
1993	2884	0.2	1565	0.1	41466	3.1
1994	3073	0.2	2850	0.2	54300	3.5

Source: State Bank of Pakistan Annual Reports 1980 to 1995 & Statistics Division, "50 Years of Pakistan in Statistics 1947-1997." Government of Pakistan, 1997.

Graph 4.7

Comparison of Zakat, Wealth and Income Taxes



Source: Derived from table 4.4.

Additionally, unlike *zakat*, the Wealth Tax was not deducted at source; it was to be self-assessed and declared by the payer, which made it difficult for the government to tap it. The implication of this was that the Wealth Tax was limited primarily to immovable property. But even tax on immovable property could be avoided in several ways via loopholes in the tax law (as the rich in any country generally prefer to conceal the amount of real estate they have in their possession). As a result, the revenue from the Wealth Tax suffered negatively and it was abolished in 2003.<sup>466</sup> This difference between deduction at source and self-assessment is crucial in explaining the disparity between the revenues from the two taxes. The poor performance of the Wealth Tax relative to *zakat* was very much a consequence of the nature of the Wealth's Tax and had little or nothing to do with the religious nature of *zakat*, as was claimed by the Islamic economists. Thus it does not follow that *zakat* raises more revenue than its secular counterpart because of its religious nature.

<sup>466</sup> Gazette of Pakistan Extraordinary, "Annual Tax Decision Finance Act 2003," *Pakistan Law Journal* II (2003), p. 391

The comparison between *zakat* and Income Tax is not a valid one, as *zakat* is levied on a stock of wealth and Income Tax is levied on an annual flow. However, a few following points should be able to determine whether the claim of the Islamists mentioned above is appropriate.

According to table 4.4 and graph 4.7 above, over the period 1980-94 *zakat* revenues averaged about 11% of Income Tax revenues. This was remarkable considering that *zakat*'s tax base is narrower than the Income Tax base and 2.5% *zakat* rate is considerably lower than the personal Income Tax's maximum marginal tax rate, which stood at 60% in 1979-80.<sup>467</sup> However, before one makes any positive judgement (putting aside, for the moment, the diverse nature of the two taxes) in favour of *zakat* based on the above table and graph, it would be vital to point out that according to the *Zakat Ordinance*, 'Under the Income Tax Ordinance, 1979 (XXXI of 1979), his total income shall be reduced by the amount paid by him to a *zakat* fund, during the income year relevant to that assessment year'.<sup>468</sup> An individual was to provide a receipt to the taxing agencies as a proof of his payment of *zakat* to be able to get reduction in the payment of Income Tax. An example of the Income Tax reduction on salaries is given below:

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<sup>467</sup> Tax Reforms Commission, "Resource Mobilization and Tax Reforms", p. 19

<sup>468</sup> *Zakat and Ushr Ordinance, 1980*, p. 34. Also see, Central Board of Revenue, "CBR Year Book (1995-96)", p. 55. Income Tax was not levied on the assets liable to *zakat per se*, but on the income generated from them. In the case of withholding income tax, it was levied on the income from the assets. This was done so that interest earned on the asset became liable to income tax and once 10% Income Tax had been deducted from that income the resulting asset would then be liable for *zakat*.

**Table 4.5**

<b>Calculation of Tax Liability</b>		
For Persons with Income up to Rs.100000		
	Without Zakat Deduction	With Zakat Deduction
Salary Income	95000	95000
Less Zakat Paid on Assets	-	600
Balance Income	95000	94400
Income Tax @10%	9500	9440
Less Basic Tax Credit	5000	5000
Income Tax Payable	4500	4440

Source: CBR Year Book 1995-96, Central Board of Revenue, Government of Pakistan, Islamabad, p. 37 and Author's own calculations.

Table 4.5 reveals that the government's secular revenue would decrease slightly because of deductions made with respect to *zakat*. According to the above example, one finds that the decline in Income Tax payable from column two to column three would be 1.3%. This estimate shows that some resources from Income Tax were channelled into *zakat* revenue, which further decreased the Income Tax revenue that was already averaging around 2.3% of GDP (see table 4.4).

Furthermore, the mode of deduction of the two taxes was different enough to tilt the revenue pattern in favour of *zakat*. Income Tax in Pakistan is mostly collected on a self-assessed basis whereas as pointed out before, *zakat* is entirely of a withholding nature. Withholding makes it difficult to evade taxes, whereas self-assessment gives an individual or a company more scope for avoidance. It was in the face of this trend of Income Tax evasion and avoidance, that in 1979 the government introduced a 10% withholding tax on

salaries, annuities and pensions. Although this step tapped a relatively small segment of the economy, it was from here that most of the revenues of Income Tax would come.<sup>469</sup> Additionally, as pointed out earlier, the Income Tax base in Pakistan has been narrow because of exemptions ranging from all agricultural income to all sorts of industrial undertakings.

Thus, in the case of Pakistan, the positive state of affairs for *zakat* as compared to Income Tax would seem to be not due to the religious fervour of the individuals to pay *zakat* (as the Islamists claim, believing that the religious nature of *zakat* would prompt individuals to pay more *zakat* than its secular counterpart), but because the policies have been shaped in such a way as to bias against the payment of Income Tax.

The present enquiry has partially confronted some of the claims of the Islamists. The decision of the Government to impose *zakat* via automatic deductions in order to raise more *zakat* revenue did not seem to have produced great results, as is evident from the *zakat*/GDP ratio and from the asset-specific collection pattern. At this point it is fair to assert that in the context of Pakistan, the level of *zakat* payment has been unimpressive and perhaps not what the Islamists had anticipated. Moreover, the individual has been shown to be far from positively inclined towards paying *zakat* as demonstrated by the evidence on *zakat* avoidance presented above. It was shown that individuals found various ways to avoid payment via fallacious affidavits, the transfer of funds and conversion into foreign currencies. Additionally, another claim of the Islamists can be challenged (on practical

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<sup>469</sup> Report of a Working Group, "Tax System in Pakistan", p. 2. Withholding was extended in 1982 to securities and 1991 to savings deposits and certificates. Thus, it was used as an important tool for Pakistan's taxation system as it is used to extend the coverage of Income Tax to various forms of capital. Also see, Tax Reforms Commission, "Resource Mobilization and Tax Reforms", p. 52

terms if not numerically) by the above analysis. This is the claim that paying *zakat* will bring the pleasure of *Allah*, and so individuals will pay it willingly, unlike secular taxation, for example Income and Wealth Tax. What became clear was the discriminatory treatment of Wealth and Income Tax actually favoured the payment of *zakat*, and that the withholding mode of *zakat* made it better suited to raise revenue than the secular taxes. Even though the *zakat* did raise significant revenue when compared to Income or Wealth Tax, this was mainly the result of the design of the respective tax structure and collection systems rather than the religious nature of *zakat*.

This section supports the hypothesis undertaken in Chapter Two that the scepticism and distrust of the individual towards the state and its government cannot necessarily be overcome by invoking divine ideologies, that the imposition of policies invoked on religious grounds, such as *zakat* based on the Islamic economic philosophy, even when this philosophy defines the *raison d'etre* of a nation such as Pakistan, would not automatically create the atmosphere of brotherhood between the ruler and the ruled and thus conformity and compliance with the imposed policy. The section also reveals the consequences of the shape of the *zakat* policy working from the revenue collection dimension at the national aggregate level.

The following sub-section further assesses the Islamists' claims about the nature of *zakat* by analysing the system in Pakistan at the household-level. This micro-level analysis is essential to obtain a vivid picture of the operation of *zakat* at the grass-roots level. It answers the questions of whether *zakat* taps the wealth of the richer segments of the society who Islamists say are required to give to the poor, in other words, who pays and how much. It also addresses the question of whether the rich actually comply with the *zakat* policy.

#### **4.2b Micro-Analyses of the Zakat System in Pakistan**

The aim of the current investigation is to present empirical evidence about the incidence of *zakat* at the household level for six separate years between 1985-86 and 1993-94. While the cross-sectional analysis of *zakat* incidence has been documented in the past by other authors, such as Jehle for the year 1987-88<sup>470</sup> and Shirazi for the year 1990-91<sup>471</sup> (see the literature survey in the Introduction), the present analyses extend the time horizon of the above authors to include four more years for the investigation, covering two decades: the 1980s and 1990s.

#### **Data**

The data used for these analyses are taken from the Household Income and Expenditure Survey (HIES) for the 1980s and the Household Integrated Economic Survey (HIES) for the 1990s.<sup>472</sup> These surveys have been conducted irregularly by the Federal Bureau of Statistics of Pakistan since 1963. Surveys were conducted annually from 1963-64 to 1971-72, but were suspended for most of the seventies, re-commencing in 1979.<sup>473</sup>

The HIES is considered to be a comprehensive and reliable statistical survey of household income and expenditure and reports statistics for households in different income groups in both rural and urban areas in the four provinces of Pakistan. The present analyses have utilised the raw data (on which the surveys are based) acquired from the Federal Bureau of Statistics during the researcher's fieldwork in Islamabad in between 2003 and 2004. Data

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<sup>470</sup> Jehle, "Zakat and Inequality."

<sup>471</sup> Shirazi, *System of Zakat in Pakistan*.

<sup>472</sup> The surveys were initially called the Household Income and Expenditure Survey however, in the 1990s their name was changed to Household Integrated Economic Survey.

<sup>473</sup> S. Howes and S. Zaidi, "Notes on Some Household Surveys from Pakistan in the Eighties and Nineties", 1994, STICERD (London School of Economics) & PRDPH (World Bank), p. 3



for the years from 1985-86 to 1987-88 and for 1990-91, 1992-93 and 1993-94 will be used.

The sizes of the different surveys are as follows:

Years	Number of Households per HIES
1985-86	16536
1986-87	17183
1987-88	18144
1990-91	6393
1992-93	14594
1993-94	14669

Source: HIES, Government of Pakistan, 1985-86, 1986-87, 1987-88, 1990-91, 1992-93 and 1993-94.

The Federal Bureau claims these sample sizes to be large enough to be representative of the population. This study focuses on a subset of variables taken from the HIES database. The subset includes household income, *zakat* given and received, household composition in terms of number of earners, and ages of the household members. Detailed explanations of these variables will be given after laying out the limitations of the data.

#### Limitations of the Data

The limitations of the 1980s data are that households that depended entirely on charity were excluded from the scope of the surveys. Illiteracy of the population in general and particularly in rural areas is another issue that hampers the quality of the survey. Household income and expenditure accounts are not kept by the households and there is a wide variation in the mode of the purchase of consumption goods from area to area, even from household to household. Additionally, many statements of expenditure may be incorrect

because of memory bias due to the long reference period for certain items.<sup>474</sup> This set of limitations is so general that one can assume that although they were not listed explicitly for the 1990s surveys, these may very well be features of these surveys as well.

STICERD at the London School of Economics conducted a study that compares the HIES for the 1980s and the 1990s with the Pakistan Integrated Household Survey (PIHS). Although the main aim of this study was to compare the HIES and the PIHS, it also highlighted the differences between the earlier 1980s HIES and the 1990s HIES. It claims that the organisation, coding and the content of the 1990-91 HIES questionnaire is somewhat different to that of the earlier HIES. It asserts that the 1990-91 HIES was devised to update national accounts and the CPI weighting systems and is more detailed and disaggregated.<sup>475</sup> However, the study concludes that the various HIES can be used for time series analyses and are comparable<sup>476</sup> and the 1990-91 HIES questionnaire follows the same broad structure as the 1980s HIES.<sup>477</sup> Issues with variables are described below.

### Zakat, Gifts and Assistance

There are two issues with this variable. The first is that the *zakat* recorded in the HIES includes centralised compulsory *zakat* payments made to the state through financial institutions to be credited to the CZA, in addition to the centralised voluntary *zakat* payments made to the government offices to be credited also to the CZA. Finally, the HIES *zakat* variable includes the inter-personal *zakat* payments (i.e. from one individual to the other) reported in the HIES. This last category is not reported at the national aggregate level

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<sup>474</sup> Federal Bureau of Statistics, "Household Income and Expenditure Survey (1987-88)," ed. Federal Bureau of Statistics, Household Income and Expenditure Survey (1987-88) (Karachi: The Manager of Publications, 1987-88), p. viii

<sup>475</sup> Howes and Zaidi, "Notes on Some Household Surveys from Pakistan", p. 7

<sup>476</sup> Ibid. p. 25

<sup>477</sup> Ibid. p. 7

data reports of the CZA and thus is not reflected in the government accounts. This implies that conducting an accounting exercise of the *zakat* payments made to the government only is an unachievable task. This in turn means that results based on the HIES data are not an exclusive reflection of the institutionalised system of *zakat* in Pakistan, but are also a reflection of the public's attitude towards *zakat* in general. This makes it somewhat difficult to attribute the results entirely to Pakistan's formal *zakat* policy. The question arises as to what implications can such a situation have for the present research.

To answer this question the aim of this section should be considered, which is to examine the incidence of *zakat*, i.e. who was bearing the burden of *zakat*: the poor or the rich? Considering that two out of three recordings in the HIES are potentially related to centralised *zakat* payments (compulsory and voluntary) it makes it possible to infer from the results the implications of the formal *zakat* policy for an individual especially if the results emulate *zakat* at the national aggregate level and the qualitative evidence presented throughout this chapter. Already, the analyses regarding the national aggregate levels of *zakat* have revealed that compulsory *zakat* payments made to the government were unimpressive at about 0.3% of the GDP. Additionally, the voluntary *zakat* payments made to the government were of little consequence as table 4.3 indicates that voluntary *zakat* never raised more than 0.2% on average of total *zakat* revenues from 1980 to 1995.

The second issue with the data is that in the 1980s questionnaire *zakat* payments are recorded with other charity payments, i.e. with gifts, and other forms of assistance. In this questionnaire *zakat* payments were registered under the code number 5299,<sup>478</sup> and included

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<sup>478</sup> Federal Bureau of Statistics, "The Questionnaire Household Income and Expenditure Survey 1987-88," ed. Federal Bureau of Statistics (Karachi: The Manager of the Publications, 1988).p. 560

'*zakat*, gifts and assistance, *ushr*, *nazrana* (charity), and philanthropy'. In the 1990s, however, *zakat* payments included *nazrana*, *zakat*, *ushr*, assistance, inheritance, and gifts, and these were registered under the code number 50111.<sup>479</sup>

The first difference between the two decades is that where *zakat* given is concerned, the 1980s data includes philanthropy, which is missing in the 1990s questionnaire, whereas the 1990s includes inheritance, which is absent from the 1980s questionnaire. Considering that 'inheritance' can only influence the results of *zakat* received and that the variable of philanthropy is absent in the 1990s *zakat* data, this implies that the definition of *zakat* given for the 1990s is narrower. This could lead one to speculate that the values of *zakat* given for the 1990s might be low compared to the 1980s.

However, there is a second reason why the *zakat* given values for the 1990s might be low compared to the 1980s. This is due to the fact that there is an additional question in the 1990s questionnaire that records 'other remittances, assistance and gifts' given, which does not appear separately in the 1980s questionnaire<sup>480</sup> and which consequently may be assumed to be part of the *zakat* variable for the 1980s.

### Income

In the absence of a comprehensive measure of wealth, on which *zakat* is levied, the analysis utilises income to assess the performance of *zakat*. To the extent that income and wealth are

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<sup>479</sup> Federal Bureau of Statistics, "Form HIES-1 3/90 Household Integrated Economic Survey," ed. Federal Bureau of Statistics (Islamabad: The Manager of Publications, 1990).p. 33

<sup>480</sup> Federal Bureau of Statistics, "The Questionnaire Household Income and Expenditure Survey 1987-88,"p. 560. Federal Bureau of Statistics, "Form HIES-1 3/90 Household Integrated Economic Survey."p. 33

positively correlated the thesis uses income as an approximate indicator of the wealth distribution of the population.

The definition of household income includes material returns in cash or in kind in exchange for goods and services by household earners other than boarders, lodgers and servants. This includes wages and salaries, pensions, contributions made by boarders, lodgers and professional fees. These are considered to be monthly sources of income. In addition to these, the income definition also includes yearly entries, such as interest and dividends, earnings from agricultural activities, business, industrial and commercial undertakings, land and property rents, gifts (*nazrana*, i.e. also charity), assistance (*zakat*) and relief in cash or in kind, bonuses, and social insurance benefits. It also includes remittances from other family members who are permanently absent.<sup>481</sup> All income used in this analyses is net of taxes.

### Methodology

The analysis will look at measures of the *zakat* burden, defined as *zakat* payments as a proportion of monthly income. Thus calculating *zakat* incidence as *zakat* divided by income multiplied by hundred.

$$zakat / income * 100$$

Given that the data are recorded at household level, calculating *zakat* incidence for each household is straightforward. However, this is not very meaningful since the households'

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<sup>481</sup> Federal Bureau of Statistics, "Household Income and Expenditure Survey (1987-88)."p. vi & vii. Also, Federal Bureau of Statistics, "Household Integrated Economic Survey," ed. Federal Bureau of Statistics Economic Affairs & Statistics Division (Karachi: The Manager of Publications, 1990-91),pp. 8-11

composition in terms of members and earners vary greatly within the survey. Therefore the household income distribution has been transformed into an adult equivalent distribution. Equivalent scales are defined as ratios of cost functions between demographically different households.<sup>482</sup> They provide a single number to account for individuals of various types, which in turn simplifies the measurement and testing of expenditure behaviour.<sup>483</sup>

The choice of equivalent scales used here is the one used by Jehle,<sup>484</sup> i.e. the Wasey (1997) and Havinga (1989) scale, which is also recommended by the Government of Pakistan. This scale assigns the weight of 1 to the earning adult of the household represented by  $x_1$ , 0.8 to non-earning adults represented by  $x_2$ , and 0.7 to children under 10 years represented by  $x_3$ . The application of this scale is as follows:

$$AE = x_1 + 0.8 * x_2 + 0.7 * x_3$$

It is believed by the creators of this scale that it has to be used with due caution because the intra-household gender differences are not considered, there are no economies of scale included and a coefficient of 0.7 for children under ten could be high.<sup>485</sup> Notwithstanding these limitations of the Wasey and Havinga scale, the present analysis utilises it due to the unavailability of the variables that would allow the employment of the 'calorific' scale, which take into account gender differences and economies of scale. Additionally, the Wasey and Havinga scale is the only scale that has been used to analyse *zakat* performance

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<sup>482</sup> R. Blundell and A. Lewbel, "The Information Content of Equivalence Scales," *Journal of Econometrics*, no. 50 (1991).p. 49

<sup>483</sup> R. C. Buse and L. E. Salathe, "Adult equivalent Scales: An Alternative Approach," *American Journal of Agricultural Economics* 60, no. 3 (1978).p. 460

<sup>484</sup> Jehle, "Zakat and Inequality."

<sup>485</sup> I. C. Havinga, Haanappel, F. W., Louter, A. S., van den Anel, W. A., "Poverty in Pakistan 1984-85," *The Pakistan Development Review* 28, no. 4 Part II (1989).p. 853

in Pakistan by Jehle, making it attractive for the present investigation. However, Jehle used this scale only to study the *zakat* performance for the year 1987-88,<sup>486</sup> whereas this enquiry will be using the same scale to extend the time period of his analysis.

This section will present descriptive statistics for households giving *zakat* within income groups using the Wasey and Havinga adult equivalent scale to create an income distribution ranging from income brackets of <200 to >2000 with intervals of 200 over ten income groups over a period of six years ranging from 1985-94. These income brackets are similar to the ones used by Jehle.

Due to data availability limitations regarding HIES, analyses will be based on 1985-1988 and 1990-91 and 1992-94. The analysis will examine the percentage number of *zakat* givers across income groups. It will examine the average and median size of *zakat* given. Finally, it will examine the proportion of adult equivalised income paid in *zakat* across income groups in average and median terms. These three steps will further the understanding of the pattern of *zakat* payment in the 1980s and 1990s. The rationale is to test the assertions of the Islamists, i.e. to determine whether *zakat* was being given by the rich and how much i.e. who was giving *zakat*.

### Pakistan's Household Income Distribution

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<sup>486</sup> Jehle, "Zakat and Inequality." pp. 6-9. See also, Centre for Research on Poverty Reduction and Income Distribution, "Issues in Measuring Poverty in Pakistan", January, 2002, Planning Commission, Islamabad Pakistan's Planning Commission recommends seven other scales. Most of these recommended scales are not very different from each other. However, there are two rather sophisticated scales, which are: the calorific scale, i.e. calorific requirements by age and sex per capita/day which also use household gender differences and the 'OECD Scale' (1979) which uses economies of scale. Then there are additional scales such as those used by FBS 1984-85, Jafri 1995 & 1999, Ahmad (1993), World Bank 1995/Gazder et. al. (1994), Glewwe & Gagg (1988), and Kruijk (1989). These scales assign different weights to individuals according to his/her position within the household.

In order to carry out the above-mentioned analyses, this section describes the income distribution of Pakistan during the 1980s and the 1990s. This will help to contextualise *zakat* payments and receipts. According to Jehle, income distribution in Pakistan is typical of a less developed country.<sup>487</sup> It is confirmed by other authors such as Kazi and Sathar that the findings on income distribution for Pakistan generally are in consonance with those for other Third World countries where certain characteristics are undeniably associated with poverty.<sup>488</sup>

The income distribution reported in table 4.6 below reveals a reduction in inequality from the early 1960s to 1970-71, shown by a Gini Coefficient that declined from 0.386 in 1963-64 to 0.330 in 1970-71. However, inequality increased during the 1970s, with the Gini Coefficient rising to 0.373 in 1979. The trend again reversed during the 1980s due to the large inflow of workers' remittances from the Middle East. Pakistan witnessed a high growth rate of about 6.8 % per annum on average during 1984-88, which improved the income distribution, lowered the incidence of poverty and reduced income inequality. However, in the 1990s, income inequality increased with the Gini-Coefficient varying between 0.40 and 0.41 (see table below).<sup>489</sup>

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<sup>487</sup> Jehle, "Zakat and Inequality." p. 207

<sup>488</sup> S. Kazi and Z. A. Sathar, "Differences in Household Characteristics by Income Distribution in Pakistan," *Pakistan Development Review* 24, no. 3-4 (1985).

<sup>489</sup> Finance Division, "Economic Survey", 2003-04, Ministry of Finance and Revenue, Government of Pakistan, Islamabad Chapter 4



**Table 4.6**

**Pakistan Income Inequality**

Year	Household Gini Coefficient
1963-64	0.386
1966-67	0.355
1968-69	0.336
1969-70	0.336
1970-71	0.330
1971-72	0.345
1979	0.373
1984-85	0.369
1985-86	0.355
1986-87	0.346
1987-88	0.348
1990-91	0.407
1992-93	0.410
1993-94	0.400
1996-97	0.400
1998-99	0.410*

\* Economic Advisor's Wing

Source: Finance Division. "Economic Survey." Islamabad: Ministry of Finance and Revenue, Government of Pakistan, 2002-03.

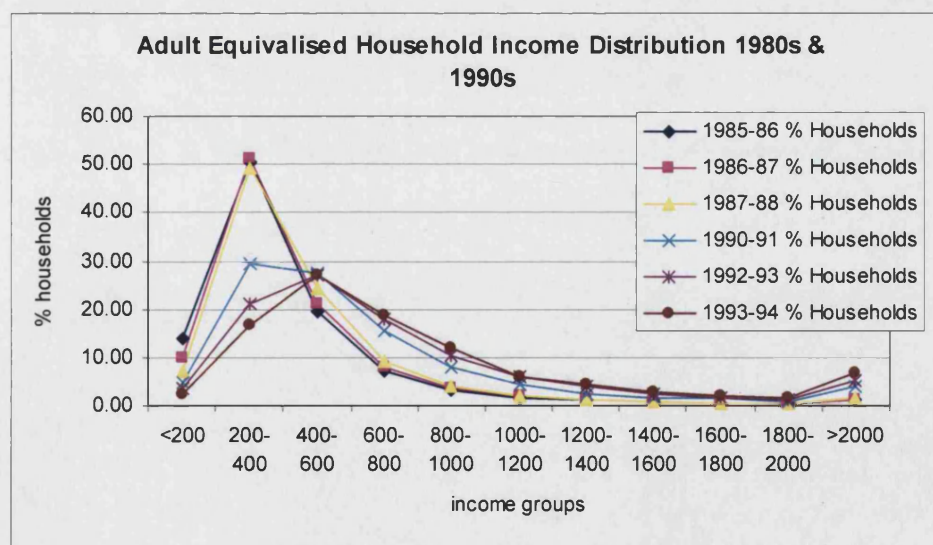
For the 1980s and the 1990s the adult equivalised income distribution for households based on the HIES are presented in table 4.7 and graph 4.8 below:

Table 4.7

HIES Adult Equivalised Household Income Distribution for 1980s and 1990s						
	1985-86	1986-87	1987-88	1990-91	1992-93	1993-94
AE Income Groups	% Households	% Households	% Households	% Households	% Households	% Households
<200	14.08	10.00	7.24	4.63	3.68	2.31
200-400	50.51	51.13	49.35	29.27	21.17	16.68
400-600	19.53	21.07	24.24	27.50	26.87	27.11
600-800	7.27	8.13	9.10	15.58	17.94	18.55
800-1000	3.34	3.58	3.78	7.89	10.42	11.80
1000-1200	1.73	1.81	1.96	4.39	6.04	6.04
1200-1400	1.07	1.37	1.20	2.42	3.78	4.17
1400-1600	0.63	0.75	0.81	1.77	2.29	2.92
1600-1800	0.41	0.52	0.50	1.55	1.41	2.14
1800-2000	0.30	0.35	0.35	0.88	1.14	1.56
>2000	1.14	1.28	1.48	4.11	5.27	6.71
Total	100	100	100	100	100	100

Source: Derived from Household Income and Expenditure Surveys 1985-86, 1986-87, 1987-88 and Household Integrated Economic Surveys 1990-1991, 1992-93 and 1993-94, Federal Bureau of Statistics, Statistics Division, Government of Pakistan.

Graph 4.8



Source: Derived from table 4.7.

From the graph above, one can detect a pattern of income distribution where the 1980s income distribution is decidedly different from that of the 1990s. The chart seems to suggest that in the 1990s there was migration of lower income households towards higher income groups. It must be pointed out that in the 1990s Pakistan experienced persistent high inflation, which is likely to have inflated nominal incomes, and hence shifted the lower household incomes to higher income groups, therefore causing a purely monetary effect rather than a real improvement in Pakistan's income distribution. Table 4.8 below seems to underpin this claim:

**Table 4.8**

**Deflator Application to Income brackets**

HIES Years	GDP Deflator	Adjustment Ratio
1985	1.47	
1986	1.51	1.03
1987	1.58	1.08
1990	2.00	1.37
1992	2.49	1.70
1993	2.71	1.85

Source: [www.datastream.net](http://www.datastream.net) and Author's own calculations.

Indeed, during the 1980s, inflation as measured by the GDP deflator was relatively moderate, as opposed to the 1990s when price levels rose significantly: it was approximately 50% higher than its average in the 1980s (see column 3 of table 4.8). Given that most of the *zakat* analysis will be based on comparison of quantities between different income groups, the placement of households in correct income groups is important. Therefore, to overcome this monetary effect the income brackets of the 1980s and the 1990s have been adjusted to the 1985 GDP annual deflator (1985 being the first year in the HIES data used) using the 1980 base year (see column three of table 4.1 for the deflator

series). The adult equivalised income brackets in table 4.7 have been multiplied by the adjustment ratios (given in the above table) of their respective years thus projecting the 1985 income brackets according to the recorded inflation. The new income brackets for the 1980s and the 1990s are as follows:

**Table 4.9**

<b>Inflation Adjusted Monthly Adult Equivalised Income Brackets (rupees)</b>					
<b>Years</b>					
<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>Income Brackets</b>					
<b>200</b>	<b>206</b>	<b>215</b>	<b>274</b>	<b>341</b>	<b>370</b>
<b>400</b>	<b>412</b>	<b>430</b>	<b>548</b>	<b>682</b>	<b>739</b>
<b>600</b>	<b>618</b>	<b>645</b>	<b>823</b>	<b>1023</b>	<b>1109</b>
<b>800</b>	<b>824</b>	<b>861</b>	<b>1097</b>	<b>1364</b>	<b>1479</b>
<b>1000</b>	<b>1030</b>	<b>1076</b>	<b>1371</b>	<b>1705</b>	<b>1848</b>
<b>1200</b>	<b>1236</b>	<b>1291</b>	<b>1645</b>	<b>2045</b>	<b>2218</b>
<b>1400</b>	<b>1442</b>	<b>1506</b>	<b>1920</b>	<b>2386</b>	<b>2588</b>
<b>1600</b>	<b>1648</b>	<b>1721</b>	<b>2194</b>	<b>2727</b>	<b>2958</b>
<b>1800</b>	<b>1855</b>	<b>1936</b>	<b>2468</b>	<b>3068</b>	<b>3327</b>
<b>2000</b>	<b>2061</b>	<b>2152</b>	<b>2742</b>	<b>3409</b>	<b>3697</b>

Source: Author's own calculations based on table 4.8.

These newly created income brackets for the 1980s and the 1990s give the following adult equivalised household income distribution:

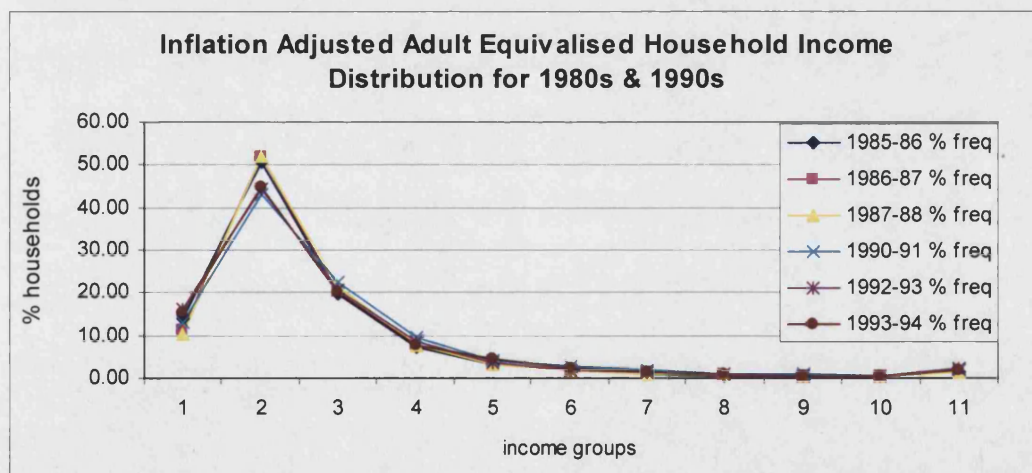
**Table 4.10**

**Inflation Adjusted Adult Equivalised Household Income Distribution for the 1980s and 1990s**

	1985-86	1986-87	1987-88	1990-91	1992-93	1993-94
AE Income Groups	% Households	% Households	% Households	% Households	% Households	% Households
1	14.08	11.33	10.14	12.95	16.05	15.01
2	50.51	51.77	51.95	42.77	44.40	44.98
3	19.53	20.22	21.62	22.35	20.39	20.23
4	7.27	7.49	7.62	9.23	8.32	7.56
5	3.34	3.40	3.22	4.06	3.78	4.35
6	1.73	1.75	1.72	2.46	1.98	2.31
7	1.07	1.36	1.02	1.84	1.23	1.51
8	0.63	0.66	0.73	1.02	0.84	0.91
9	0.41	0.47	0.44	0.86	0.53	0.59
10	0.30	0.39	0.29	0.55	0.43	0.53
11	1.14	1.16	1.25	1.91	2.04	2.00
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Based on HIESS, table 4.9 and Author's own calculations.

**Graph 4.9**



Source: Derived from table 4.10.

As the graph above shows, the deflated adult equivalised household income distribution for the 1990s has become more comparable to the income distribution of the 1980s. Therefore it seems that in general there was no substantial change in the income distribution of the

Pakistani people opposed to what is shown in graph 4.8. The rest of the analyses will be using this inflation-adjusted adult equivalised household income distribution.

As analysed in Chapter Two, the rationale of *zakat* is the attainment of welfare in terms of poverty reduction (among inequality). Therefore, it is important to relate the new income brackets to poverty line to orientate the analysis in terms of who paid *zakat*. The following table 4.11a indicates the income brackets which fall entirely or partially under the poverty line.

**Table 4.11a**

**Income Brackets Falling Entirely or Partially Under the Poverty Line**

1985-86		1986-87		1987-88		1990-91		1992-93		1993-94	
income groups	poverty line	income groups	poverty line	income groups	poverty line	income groups	poverty line	income groups	poverty line	income groups	poverty line
200	226	206.06	233.9	215.15	244.9	274.24	313.4	340.91	383.7	369.70	422
400		412.12		430.30		548.48		681.82		739.39	

Source: Based on the HIESs and derived from table 4.9.

According to the above table, for all the six years the first income group falls below the poverty line, whereas the poverty line covers the second income group only partially.

Someone living below a poverty line (which is defined in terms of the monetary income sufficient to attain a minimal standard of living) is considered poor. This approach to measure poverty is called the *monetary approach*.<sup>490</sup> This approach deals with the concept of absolute poverty, which characterises poverty in Pakistan.<sup>491</sup> The poverty line used in this thesis is based on the calorific intake approach. A Havinga et al adult equivalised

<sup>490</sup> United Nations, "Asia Pacific Economies: Sustaining Growth and Tackling Poverty", 2004, United Nations, New York p. 242

<sup>491</sup> Shirazi, *System of Zakat in Pakistan*. p. 81

poverty line of Rs.214 per month has been used and has been inflation adjusted using the Consumer Price Index for the six years under consideration (see table 4.11b below).<sup>492</sup> Rs.214 is the monthly expenditure at 1984-85 prices just adequate to acquire a simple diet providing a daily calorific intake of 1,500 to 2,000 calories per day per AE. This poverty line is based on the calorie intake of households (standardized to household equivalents) on the basis of actual consumption of food. For the calculation of calorie intake per household Havinga has utilized a detailed conversion table provided by the Government of Pakistan to convert the quantities of the actual food consumed into calories.<sup>493</sup> The household calorie intake thus obtained is then converted into calories intake per household equivalent according to the Wasey and Havinga equivalent scale.<sup>494</sup> The reasons for utilizing this poverty line are two; firstly, a methodology that is accepted by the Government of Pakistan is used in determining this poverty line, secondly, the poverty line has been equivalised using the same Wasey and Havinga scale which has been used to equalise household incomes to correct for differences in household size and composition for *zakat* analyses as well.

The table below details the inflation adjusted poverty lines for the six years analysed and also presents the percentage of households with equivalised income below poverty line according to the HIESs.

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<sup>492</sup> Although there remains considerable debate on the consistency, measurement and methodology of poverty indicators in Pakistan, as Pakistan does not have an official and well recognized poverty line which can be comparable for analysis over time and space. Policy Wing Poverty Reduction Cell, "Interim Poverty Reduction Strategy Paper", November, 2001, Finance Division & Planning Commission Government of Pakistan, p. 9. However it is also recognized by the researchers at the Pakistan Institute of Development Economics that the correct procedure to update the poverty lines is to adjust them by the Consumer Price Index S. K. Qureshi and G. M. Arif, "Profile of Poverty in Pakistan 1998-99", January, 2001, Pakistan Institute of Development Economics, Islamabad p. 14

<sup>493</sup> Havinga, "Poverty in Pakistan." p. 853

<sup>494</sup> Ibid. p. 857

**Table 4.11b**

**Pakistan Poverty Statistics Based on the HIESs**

	Poverty Line (rupees- hundred)	Households with Adult Equivalent income below the Poverty Line (%)
<b>1985-86</b>	226.0	20.9
<b>1986-87</b>	233.9	18.8
<b>1987-88</b>	244.9	17.1
<b>1990-91</b>	313.4	19.0
<b>1992-93</b>	383.7	22.3
<b>1993-94</b>	422.0	21.9

Source: Havinga, I. C., Haanappel, F. W., Louter, A. S., van den Anel, W. A. "Poverty in Pakistan 1984-85." The Pakistan Development Review 28, no. 4 Part II (1989): 851-869, [www.datastream.net](http://www.datastream.net), HIESs and Author's own calculations.

From the table above it can be seen that for the 1980s there was a decrease in the trend of households with equivalised income below the poverty line. In 1985-86 the percentage was almost 21%, in 1986-87 it was around 19% and in 1987-88 it was just above 17%. In 1990-91 the trend was reversed, i.e. the percentage number of households with equivalised income below the poverty line increased with the years. In 1990-91 the percentage was 19%, above 22% in 1992-93 and nearly 22% in 1993-94.

Considering the above state of affairs, the analyses regarding *zakat* givers in Pakistan should begin by showing the share of the population involved in *zakat* payment. The following table 4.12 and graphs 4.10a, b, and c for the 1980s and table 4.13 and graphs 4.11a, b and c for the 1990s indicate the percentage of *zakat* givers (G) along with those who were non-participants (N-P) across income groups.

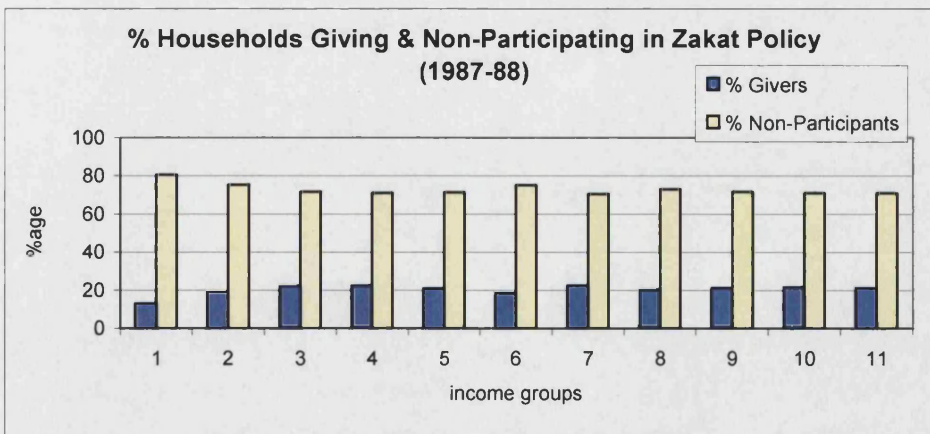
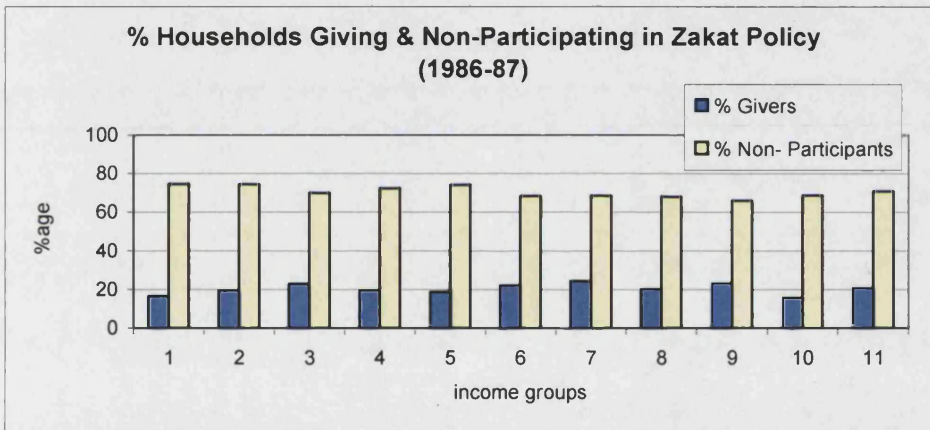
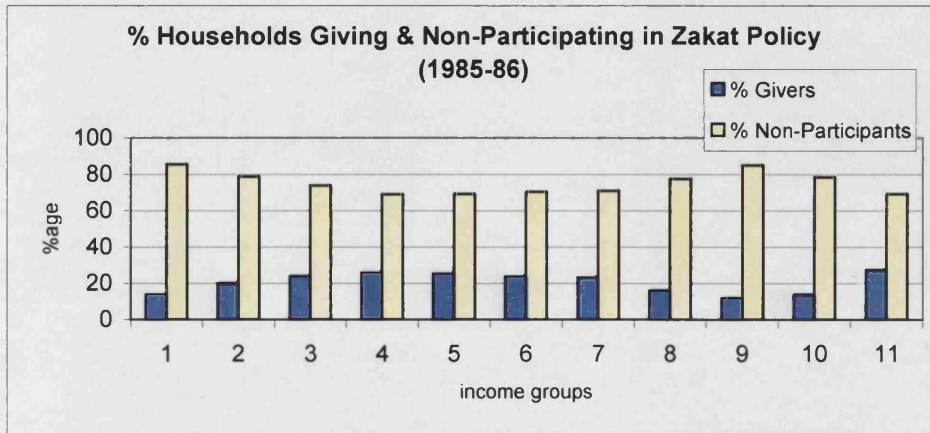


**Table 4.12**

<b>Percentage Households Giving and Non-Participating in Zakat Policy</b>						
<b>Income Groups</b>	<b>1985-86</b>		<b>1986-87</b>		<b>1987-88</b>	
	<b>% G</b>	<b>% NP</b>	<b>% G</b>	<b>% NP</b>	<b>% G</b>	<b>% NP</b>
<b>1</b>	14.2	85.6	16.6	74.6	13.2	80.5
<b>2</b>	20.1	78.8	19.5	74.3	19.5	75.4
<b>3</b>	24.0	74.0	22.9	69.8	22.4	71.6
<b>4</b>	26.2	69.1	19.7	72.3	22.5	70.9
<b>5</b>	25.8	69.3	18.6	74.0	21.0	71.3
<b>6</b>	24.1	70.3	22.3	68.3	18.6	75.2
<b>7</b>	23.5	70.9	24.5	68.4	22.6	70.5
<b>8</b>	15.9	77.6	20.3	67.8	20.3	72.9
<b>9</b>	11.9	85.1	23.2	65.9	21.2	71.8
<b>10</b>	13.7	78.4	15.7	68.6	21.8	70.9
<b>11</b>	27.6	69.3	20.9	70.9	21.4	70.9
<b>Total %</b>	<b>20.8</b>	<b>77.4</b>	<b>20.0</b>	<b>72.9</b>	<b>19.8</b>	<b>74.5</b>

Source: HIESs and Author's own calculations.

Graphs 4.10 a, b & c



Source: Derived from table 4.12.

Cross-sectional analyses of the 1980s suggest that the proportion of people in the highest income groups who paid *zakat* was not very different from the lowest income groups, i.e. the gap was not very wide. To the extent that income is correlated with wealth (and thus used as a proxy measure to determine the wealth of an individual) the result is in contradiction to the aspirations of the Islamists and principals of *zakat*, which state that *zakat* is the right of the poor in the wealth of the rich and that it is the rich who should be paying it.

For example, in 1985-86 the average proportion of *zakat* givers in the four lowest income groups was 21.1%, compared to the average proportion of *zakat* givers in the four highest income groups, which was 17.3%. For 1986-87 it was almost the same for the highest and the lowest four income groups, and for 1987-88 it was 19.59% and 21.2% respectively. Especially for the first two years, the percentage of households paying *zakat* in the tenth highest income group was not very different from the lowest income group which fell below the poverty line.

The above table and the graphs reveal another phenomenon in Pakistan's *zakat* policy, that of the surprisingly high number of non-participants in the *zakat* system for the highest four income groups for all the three years of the 1980s. The percentage of N-Ps for the highest four income groups averaged around 74.7% as compared to 72.5% for the lowest four income groups for all the years of the 1980s. In the case of higher income groups, this picture revealed the high level of *zakat* non-compliance, which was indicative of the fact that these relatively wealthy individuals did not bear the obligation of giving *zakat*, and *zakat's* religious nature did not oblige them to do so. This situation reveals that *zakat* was struggling to raise resources to meet its objectives. The claim of one of the national

newspapers further supports the view that the rich were not paying their due share of *zakat*. In 1987 a member of the National *Zakat* Review Committee told the press that every year the rich evade payment of *zakat*, with the sums involved amounting to millions.<sup>495</sup> It is not clear whom they regard as 'rich' but the fact that this statement came from within the *zakat* review committee suggests that it must be based on real concerns within the *zakat* authority.

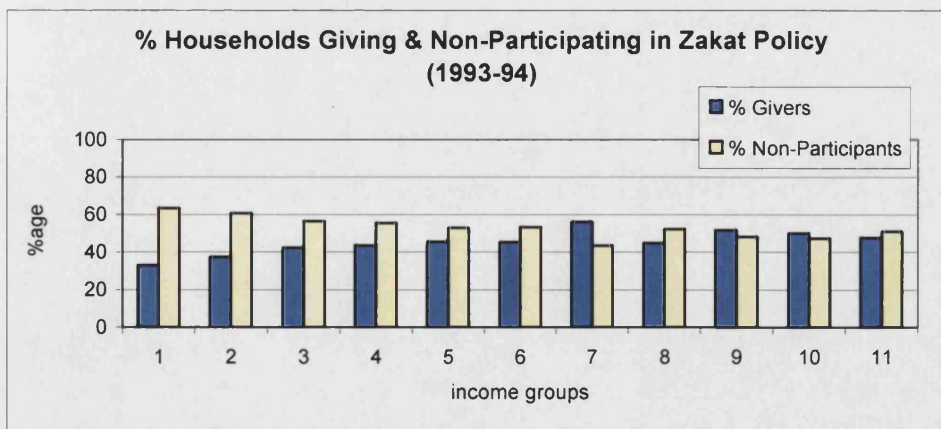
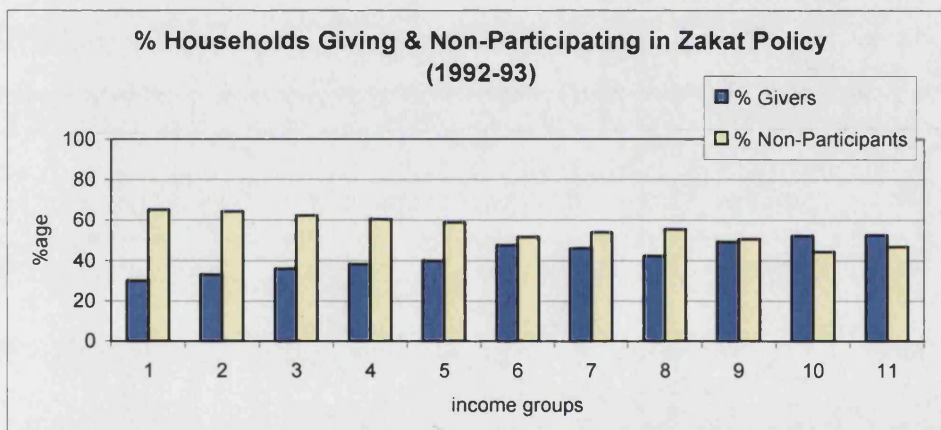
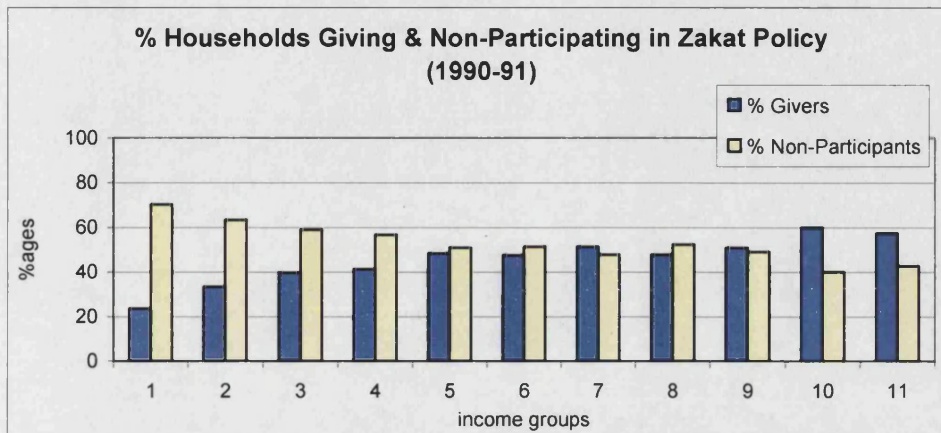
**Table 4.13**

Percentage Households Giving and Non-Participating in Zakat Policy						
Income Groups	1990-91		1992-93		1993-94	
	% G	% NP	% G	% NP	% G	% NP
1	23.5	70.2	30.0	65.1	33.1	63.3
2	33.3	63.3	33.1	64.2	37.4	60.7
3	39.7	59.0	36.1	62.2	42.3	56.5
4	41.3	56.7	38.1	60.4	43.4	55.3
5	48.3	51.0	39.9	58.7	45.5	52.8
6	47.5	51.3	47.8	51.6	45.3	53.2
7	51.3	47.9	46.1	53.9	56.1	43.5
8	47.7	52.3	42.3	55.3	44.8	52.2
9	50.9	49.1	49.4	50.6	51.7	48.3
10	60.0	40.0	52.4	44.4	50.0	47.4
11	57.4	42.6	52.5	46.8	47.6	51.0
<b>Total %</b>	<b>36.4</b>	<b>60.8</b>	<b>35.0</b>	<b>62.5</b>	<b>39.4</b>	<b>58.6</b>

Source: HIESs and Author's own calculations.

<sup>495</sup> Staff Reporter, "Evading Zakat."

Graphs 4.11 a, b & c



Source: Derived from table 4.13.

For the 1990s, at first glance table 4.13 and graphs 4.11a, b and c reveal a significant increase in the percentage of *zakat* givers, from a total average of 20.2% in the 1980s for the rich to almost 37% in the 90s for all income groups and NP became for both decades. However more rich paid in the 1990's.

Cross-sectional data for 1990-91 reveal that the average percentage of *zakat* givers was 34.4% for the lowest four income groups and 54% for the highest income groups, for 1992-93 it was 34.3% and 49.1%, and for 1993-94 it was 39% and 48.5% respectively.

These statistics reveal that for the 1990s, unlike the 1980s, households in the relatively rich income groups were more likely to pay *zakat* than the poorer ones. The average for three years of the 1990s shows that about 50.6% of the highest four income groups paid *zakat* compared to an average of almost 36% in the four lowest groups, while it has been shown that during the 1980s there was no significant difference between the rich and the poor for the proportion of households giving *zakat*.

The 1990s revealed that the non-payers in the highest four income groups averaged around 48.3%, as compared to an average of 61.4% for the lowest four income groups. This was an improvement compared to the 1980s where percentage of non-payers in the lowest and the highest income groups was almost similar. Thus during the 1990s the gap in the percentage of non-payers in the lowest and the highest income groups was widening. Nonetheless, despite this decrease in the number of non-payers, a significant proportion of wealthier households were still avoiding the *zakat*.

The increased number of *zakat* givers, and the reduced number of non-payers in high-income groups in the 1990s are only partial indications of policy effectiveness, because the overall number of givers is no indication of the size of *zakat* given or of its burden across income groups. A small payment of *zakat* by a former non-participant in the upper income groups does not imply fulfilment of his/her obligation towards *zakat* if the payment is not according to the prescription of *Shariah*, i.e. 2.5% of their assessable wealth.

Table 4.14 and graphs 4.12a, b and c below present the average size of *zakat* given per adult equivalent across income groups during the 1980s and 1990s in rupees per month in current prices.

The current analysis examines the two decades of the 1980s and the 1990s together to explain the downward jump of the *zakat* size between the two decades.

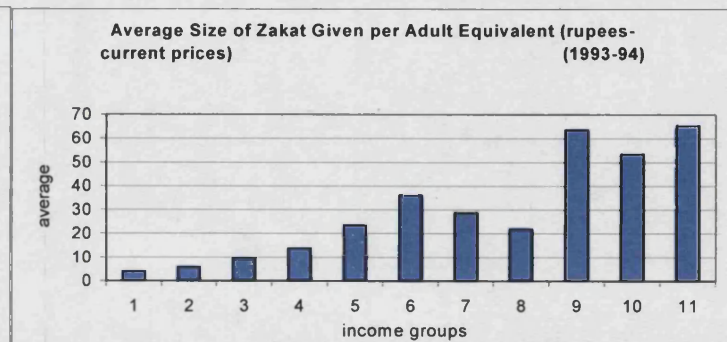
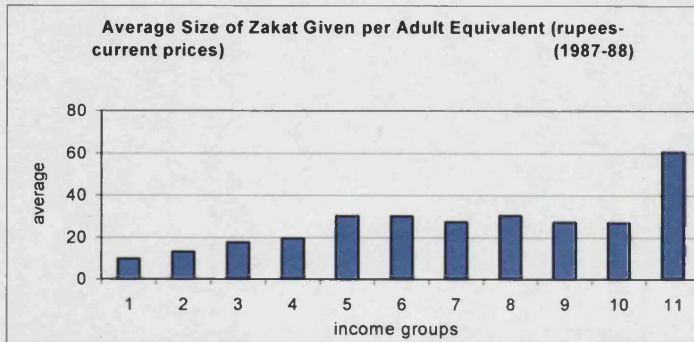
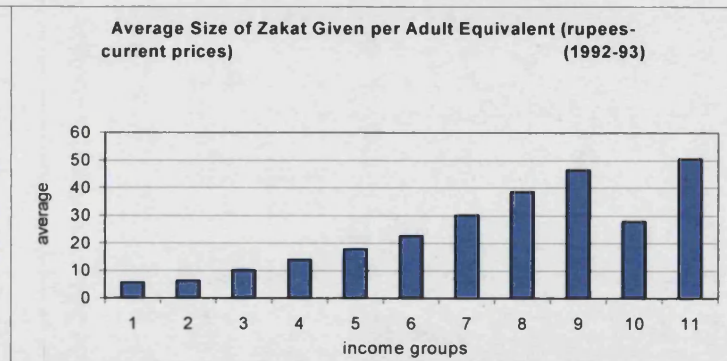
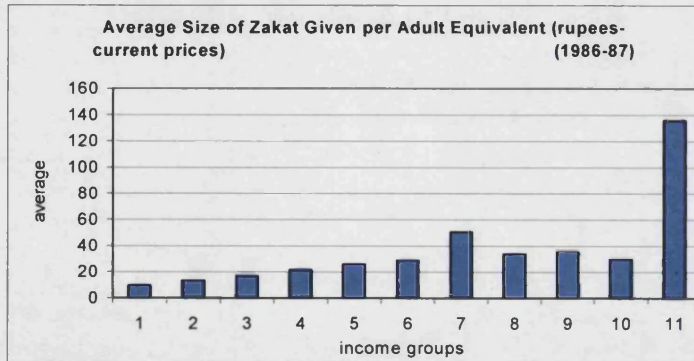
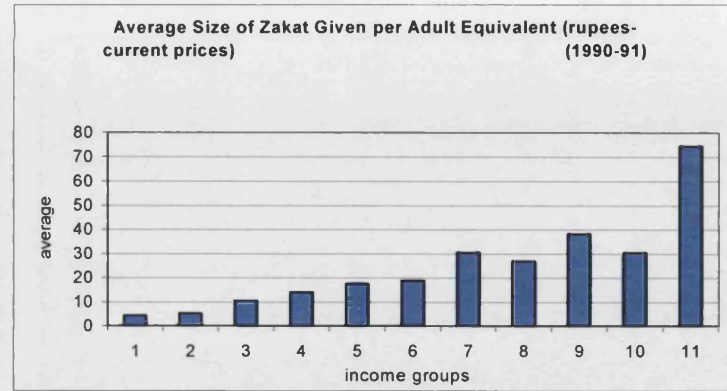
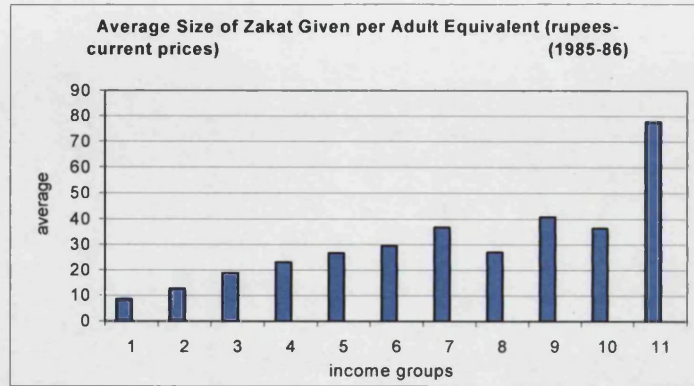
**Table 4.14**

<b>Average Size of Zakat Given per Adult Equivalent</b> (rupees-current prices)						
	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>Income Groups</b>	<b>Average Size of Zakat Given</b>	<b>Average Size of Zakat Given</b>	<b>Average Size of Zakat Given</b>	<b>Average Size of Zakat Given</b>	<b>Average Size of Zakat Given</b>	<b>Average Size of Zakat Given</b>
<b>1</b>	8.5	9.6	9.8	4.3	5.7	4.1
<b>2</b>	12.6	13.6	13.1	5.3	6.3	5.7
<b>3</b>	18.7	17.1	17.6	10.5	10.1	9.5
<b>4</b>	23.0	21.5	19.4	13.9	13.9	13.8
<b>5</b>	26.6	26.1	30.0	17.5	17.8	23.5
<b>6</b>	29.5	29.3	30.0	18.9	22.6	36.1
<b>7</b>	36.7	50.5	27.3	30.4	30.1	28.7
<b>8</b>	27.0	33.9	30.2	26.9	38.5	21.8
<b>9</b>	40.8	36.2	27.2	38.0	46.6	63.5
<b>10</b>	36.4	30.3	26.9	30.4	27.8	53.4
<b>11</b>	77.7	135.7	60.5	74.4	50.5	65.4
<b>Overall Average</b>	<b>17.0</b>	<b>17.8</b>	<b>16.5</b>	<b>12.1</b>	<b>11.1</b>	<b>11.6</b>

Source: HIESs and Author's own calculations.



Graphs 4.12 a, b & c



Source: Derived from table 4.14.

The above tables and graphs show a downward leap of *zakat* size between the two decades. The average size of *zakat* given across income groups falls from around 17 rupees per adult equivalent in the 1980s, to around 11 rupees per adult equivalent in the 1990s. As shown in table 4.8, the GDP deflator rose from 1.47 in 1985 to 2.71 in 1993, registering an increase of around 85% during the period of our analysis. This would imply that the average size of *zakat* payment per adult equivalent fell by more than 60% in real terms from 1985 to 1993 (see table below).

Deflating Average Size of Zakat Given per Adult Equivalent			
Years	Current Prices (Rupees)	GDP Deflator	Constant Prices (1985)
1985-86	16.97	1.47	16.97
1986-87	17.78	1.51	17.21
1987-88	16.46	1.58	15.25
1990-91	12.12	2.00	8.86
1992-93	11.14	2.49	6.54
1993-94	11.57	2.71	6.25

Source: [www.datastream.net](http://www.datastream.net), HIESs and Author's own calculations.

This decline may be explained through the changes in the structure of the questionnaire for the 1990s (as mentioned earlier in this section). Since in the 1990s questionnaire there is a separate entry for 'other remittances, assistance and gifts', which does not appear for the 1980s, the 1990s *zakat* given variable is combined with this separate entry in the last column of table 4.15 below to see if the average size of *zakat* given can be reconciled across the two decades. This column shows that even after taking gifts given in the 1990s under consideration, people in this decade were still paying less charity (*zakat* and gifts) on average than in the 1980s.

**Table 4.15****Reconciliation of Average Size of Zakat Given per Adult Equivalent with & without Weights and with Zakat plus Gifts Given**

Units: Rupees (current prices)

	Average Size of Zakat Given per Adult Equivalent for all Income Groups (without HIES weights)	Average Size of Zakat Given per Adult Equivalent for all Income Groups (with HIES weights)	Average Size of Zakat and Gifts Given per Adult Equivalent for all Income Groups (1990s)
1985-86	16.97	16.07	-
1986-87	17.78	16.91	-
1987-88	16.46	16.06	-
1990-91	12.12	9.77	12.62
1992-93	11.14	10.13	11.61
1993-94	11.57	11.04	11.66

Source: HIESs and Author's own calculations.

This decline should also be tested for potential measurement errors in the collection or processing of the data or for the presence of bias in sampling methods regarding under- or over-representation. Thus, when the data sets are re-weighted according to the weights provided in the HIES, there appears some difference with the previous results and the decline becomes more significant in the average size of *zakat* given between the 1980s and the 1990s (see the third column in table 4.15).

(To fortify this point, appendix A presents the weighted and the un-weighted figures for the average *zakat* incidence for the 1980s and 1990s. It also shows that the incidence dropped from the 1980s to the 1990s (more than twice) and that even with the application of the weights the proportion of the drop of incidence between the two decades remained unchanged.)

Interestingly, this sharp decline appears to be almost consistent with the CZA figures (as shown in table 4.1), which show a decrease in total *zakat* collection in nominal (to some extent ) and real terms from 1990 onwards. It also appears to be consistent with the decline in the *ushr* collection in the 1990s recorded in the Introduction. The decline of the average *zakat* size given in the 1990s also concurs with the analyses of the *nisab* of *zakat* presented in table 3.3 in Chapter Three which showed that due to the deterioration of the value of *nisab* over time, the levy of *zakat* steered increasingly towards the poor and that by the end of 1994 (the period analysed), people with half the income relative to 1980 were liable to pay *zakat*, the consequence of which might be that the average size of *zakat* given would probably fall. In fact, if one looks at table 4.14 it appears that from the 1980s to the 1990s it is within the lowest four income groups that this fall in the average size of *zakat* given is more apparent.

Looking at each single year for the two decades in table 4.14, it appears that there is a general upward trend in the average size of *zakat* given across income groups, suggesting that richer people tend to pay larger amounts than poor people in absolute terms. In all years, the size of *zakat* given by the highest income groups was several multiples higher than the size of *zakat* given by the lowest income groups. However, one must be cautious in drawing final conclusions from these averages as they may be dominated by some outliers, as in the case of group 11 in the 1986-87 and 1990-91 analyses. Therefore, it would be beneficial to look at the median *zakat* size given for these decades.

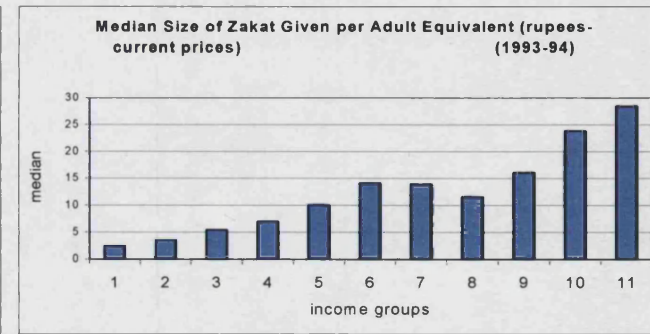
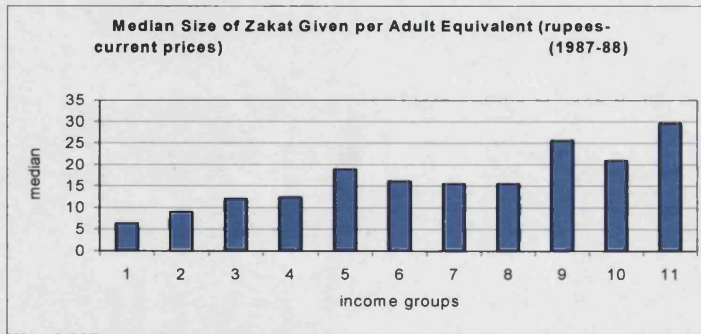
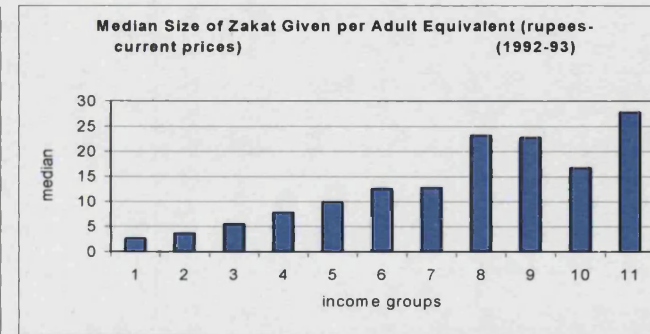
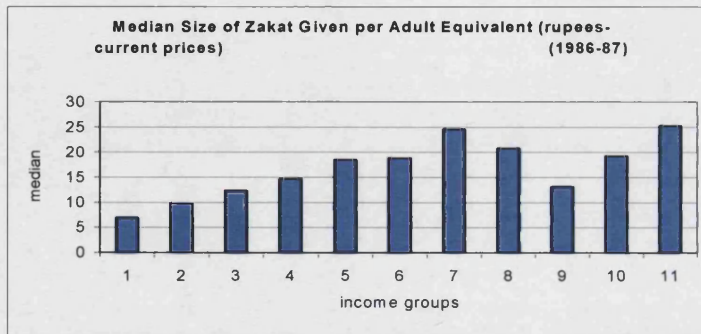
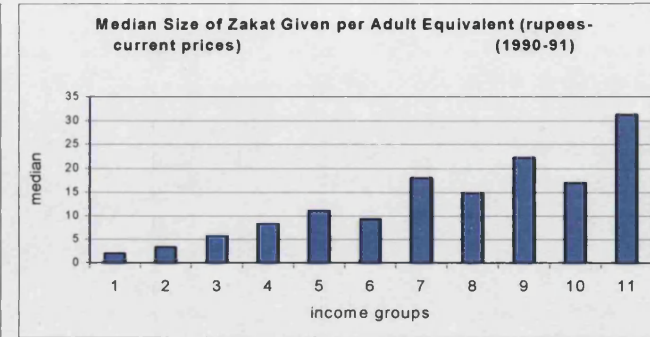
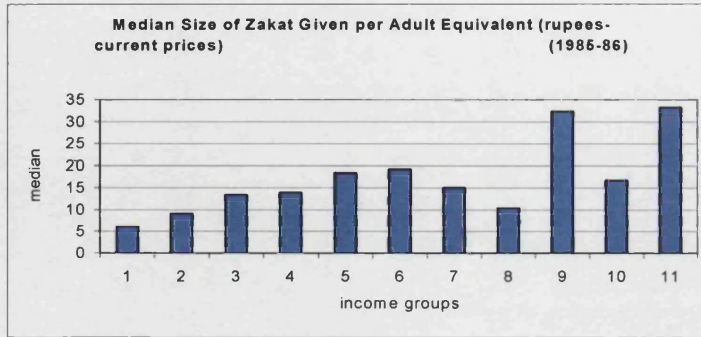
The following table 4.16 and graphs 4.13a, b and c give the median size of *zakat* given per adult equivalent in rupees in current prices for the 1980s and the 1990s.

**Table 4.16**

<b>Median Size of Zakat Given per Adult Equivalent (rupees-current prices)</b>						
	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>Income Groups</b>	<b>Median Size of Zakat Given per Adult Equivalent</b>	<b>Median Size of Zakat Given per Adult Equivalent</b>	<b>Median Size of Zakat Given per Adult Equivalent</b>	<b>Median Size of Zakat Given per Adult Equivalent</b>	<b>Median Size of Zakat Given per Adult Equivalent</b>	<b>Median Size of Zakat Given per Adult Equivalent</b>
<b>1</b>	6.15	6.86	6.43	2.0	2.6	2.5
<b>2</b>	9.00	9.73	8.96	3.3	3.6	3.6
<b>3</b>	13.33	12.31	12.00	5.8	5.5	5.4
<b>4</b>	13.85	14.63	12.31	8.3	7.8	6.9
<b>5</b>	18.35	18.46	18.80	11.1	9.9	10.0
<b>6</b>	19.20	18.75	16.00	9.3	12.5	14.1
<b>7</b>	15.00	24.62	15.48	18.0	12.8	13.9
<b>8</b>	10.43	20.77	15.48	14.9	23.1	11.6
<b>9</b>	32.31	13.13	25.53	22.2	22.7	16.0
<b>10</b>	16.67	19.20	20.95	17.0	16.7	23.8
<b>11</b>	33.23	25.26	29.57	31.3	27.8	28.4

Source: HIESs and Author's own calculations.

Graphs 4.13a, b & c



Source: Derived from table 4.16.

From the table and graphs presented above, one can stipulate that for both the 1980s and the 1990s, the median size of *zakat* payments was smaller for the lower income groups and larger for the higher income groups, showing no change in the picture emerging from table 4.14 (the average size of *zakat* given per adult equivalent). However, the gap in the size of *zakat* given between the lowest income groups and the highest income groups has narrowed. In 1985 for example, the median *zakat* paid in the highest income group (higher than 2000 rupees) was 33.23 rupees, compared to the median *zakat* payment of 6.15 rupees for the lowest income group (lower than 200 rupees and falling below the poverty line). This seems to suggest that *zakat* payment was growing less than proportionally to income. For 1987-88, Jehle's results show that both the mean and the median amounts given for *zakat* were low.<sup>496</sup> This again indicates not only that the onus of giving *zakat* was not fully undertaken by the rich but also that the disparity of the *zakat* size given between the highest and the lowest income groups for both the decades was not big enough to generate significant equity.

Analyses of *zakat* incidence would highlight this point more emphatically, as the burden of *zakat* can be calculated better as a proportion of income across income groups.

Thus table 4.17 and graphs 4.14a, b and c report the burden of *zakat* across income groups per household as proportion of income during the 1980s. The table gives information regarding the percentage of income given towards *zakat*. *Zakat* incidence with respect to individual or household wealth would provide a more direct test, but as pointed out earlier, in the absence of data on household wealth, current income has to be used as a plausible

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<sup>496</sup> Jehle, "Zakat and Inequality." p. 209

proxy measure. Thus, a significant economic test of the effectiveness of *zakat* in giving the poor a claim on the wealth of the rich would be to analyse *zakat* incidence with respect to current income.

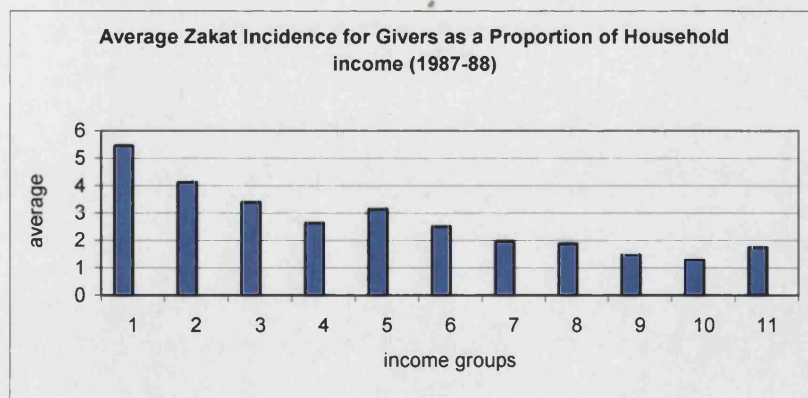
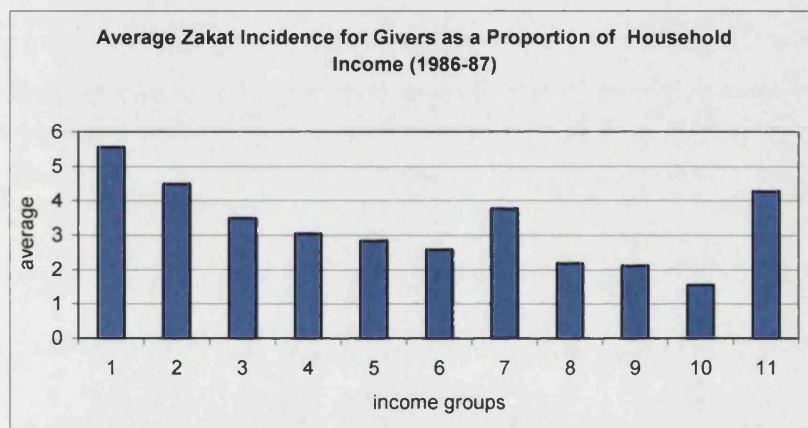
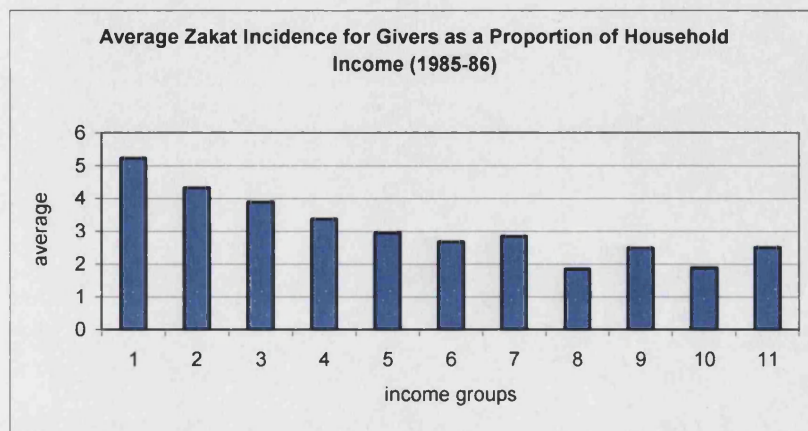
**Table 4.17**

<b>Average Zakat Incidence for Givers (as a proportion of Household Income)</b>			
	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>AE Income Groups</b>	<b>Average Zakat Incidence for Givers per Household</b>	<b>Average Zakat Incidence for Givers per Household</b>	<b>Average Zakat Incidence for Givers per Household</b>
<b>1</b>	5.2	5.6	5.4
<b>2</b>	4.3	4.5	4.1
<b>3</b>	3.9	3.5	3.4
<b>4</b>	3.4	3.0	2.6
<b>5</b>	3.0	2.8	3.1
<b>6</b>	2.7	2.6	2.5
<b>7</b>	2.8	3.8	2.0
<b>8</b>	1.8	2.2	1.9
<b>9</b>	2.5	2.1	1.5
<b>10</b>	1.9	1.6	1.3
<b>11</b>	2.5	4.3	1.8
<b>Total Incidence</b>	<b>4.1</b>	<b>4.1</b>	<b>3.7</b>

Source: HIESs and Author's own calculations.



**Graphs 4.14 a, b & c**



Source: Derived from table 4.17.

For the 1980s, the average *zakat* incidence falls almost linearly with rising income. Jehle's findings almost coincide with the present results except for the lowest income group for 1987-88. He demonstrated that the percentage of income given by those who give *zakat* reaches its peak in the second lowest income group then drops off steadily with higher income groups.<sup>497</sup>

Additionally, according to the present analysis, in 1985-86 and 1987-88 the incidence of *zakat* for the lowest income group that is below the poverty line is 2 to 3 times higher than the incidence recorded for the highest income group. The average burden of *zakat* across the highest four income groups is just 2% on average. This scenario seems to concur with Jehle's assertion when he says that those on whom the Islamic injunction to give *zakat* is greatest (those with high incomes) seem to put much less of their weight into the overall effort towards reducing inequality than those much poorer than themselves.<sup>498</sup>

Interestingly, the total *zakat* incidences for the three years of the 1980s given above do not at first sight seem to reconcile with the aggregate statistics of the same years, as shown in table 4.1. In table 4.1, calculations of *zakat* collected as percentage of the GDP are 0.3% as opposed to the average of 4% of household income given towards *zakat* for the three years of the 1980s. This is because the GDP value includes those who give and receive *zakat* as well as those who do not participate in the system (thus the entire population), whereas the average *zakat* incidence of 4% given in the table above reflects only the incidence of the givers of *zakat* who represent a small portion of all households. To give an illustration, the following table shows average *zakat* incidence for the six years of the 1980s and the 1990s

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<sup>497</sup> Ibid. p. 209

<sup>498</sup> Ibid. p. 209

calculated over the entire HIES samples, i.e. including givers, receivers and non-participants.

**Zakat Incidence for Overall sample of HIES  
(including Givers, Receivers & Non-Participants)**

1985-86	1986-87	1987-88	1990-91	1992-93	1993-94
0.846187	0.847581	0.825314	0.528933	0.517943	0.50959

Source: HIES and Author's own calculations.

The above averages still do not reconcile fully with the *zakat* to GDP ratio (although the gap has been narrowed). This is because, as mentioned earlier in this section, *zakat* recorded by the CZA only accounts for official *zakat* given (via institutions and voluntary) whereas the HIES surveys include official as well as the inter-personal *zakat*. Moreover, as pointed out in the Introduction, the *ushr* receipts are not calculated at the national level whereas these are part of the HIES surveys.

With regards to the 1990s (see table 4.18 and graphs 4.15a, b and c below) what is striking is the low proportion of *zakat* given across income groups in each year. The total *zakat* incidence is less than half of what is recorded for the 1980s. This is not a surprise, given that the size of *zakat* given also went down for this decade, which has been explained partially by the narrowing of the definition of *zakat* in the 1990s questionnaire and partly as the result of an actual decrease in the *zakat* given.

Unlike the 1980s, the average *zakat* incidence for the 1990s did not fall with the increase in income. Additionally, for 1993-94 *zakat* incidence reached its peak in the ninth income group, but this peak is only 0.2 percentage points higher than the *zakat* incidence in the lowest income group for that year.

However, for the first two years of the 1990s the trend regarding the *zakat* incidence for the lowest income group is the same as the 1980s, i.e. the *zakat* incidence reached its peak in the lowest income group (lower than the poverty line) rather noticeably. This peak seems more prominent when one observes that the average incidence of *zakat* for the highest income group with incomes of more than Rs.2500 was about 1.2% as compared to 2.7% for the lowest income group for the first two years of the 1990s. This point concurs with Shirazi's study of *zakat* in Pakistan during 1990-91, in which he shows that the contribution of richer households towards *zakat* was small.<sup>499</sup>

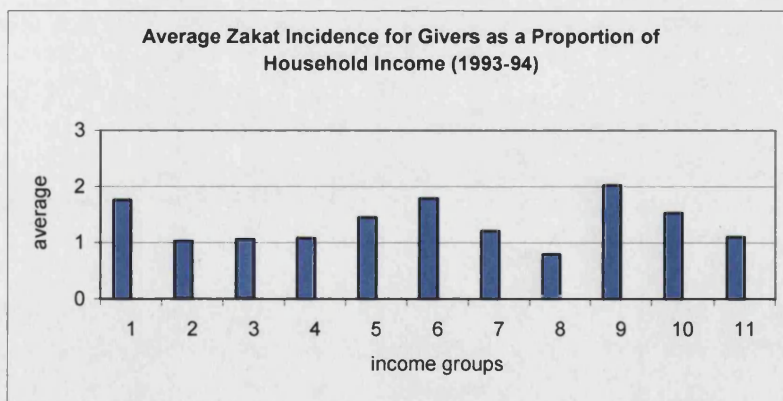
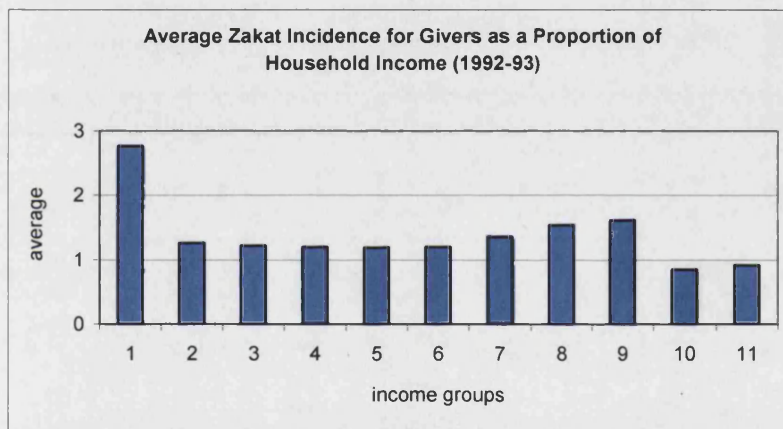
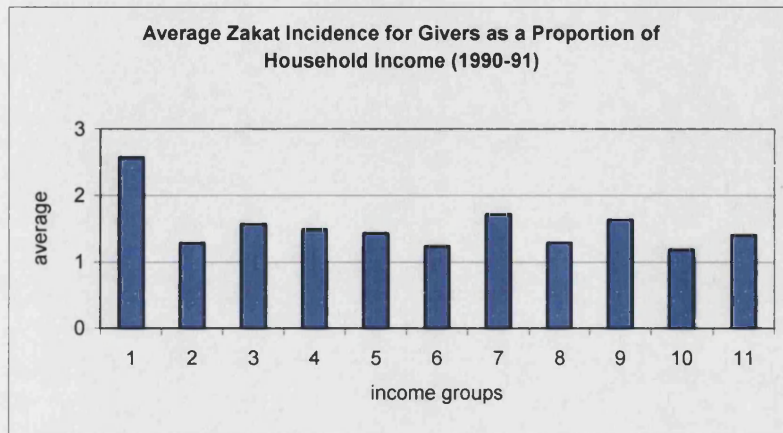
**Table 4.18**

<b>Average Zakat Incidence for Givers (as a proportion of Household Income)</b>			
	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>AE Income Groups</b>	<b>Average Zakat Incidence for Givers per Household</b>	<b>Average Zakat Incidence for Givers per Household</b>	<b>Average Zakat Incidence for Givers per Household</b>
<b>1</b>	2.6	2.8	1.8
<b>2</b>	1.3	1.3	1.0
<b>3</b>	1.6	1.2	1.1
<b>4</b>	1.5	1.2	1.1
<b>5</b>	1.4	1.2	1.5
<b>6</b>	1.2	1.2	1.8
<b>7</b>	1.7	1.4	1.2
<b>8</b>	1.3	1.5	0.8
<b>9</b>	1.6	1.6	2.0
<b>10</b>	1.2	0.9	1.5
<b>11</b>	1.4	0.9	1.1
<b>Total Incidence</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>

Source: HIES and Author's own calculations.

<sup>499</sup> Shirazi, *System of Zakat in Pakistan*. p. 75

**Graphs 4.15a, b & c**



Source: Derived from table 4.18.

The commonality between the two decades is that there appears to be high percentage of *zakat* incidence in the lowest income group. This should be viewed with caution as for both decades there are some outliers in these income groups who pay more than 20% of their income in *zakat*. Due to the nature of average values, which can be biased due to the presence of outliers in the data, any judgement of analyses based upon them will suffer from this shortcoming. Therefore, it is appropriate to look at the median *zakat* incidence, because the median would make the analyses more robust and remove this vulnerability.

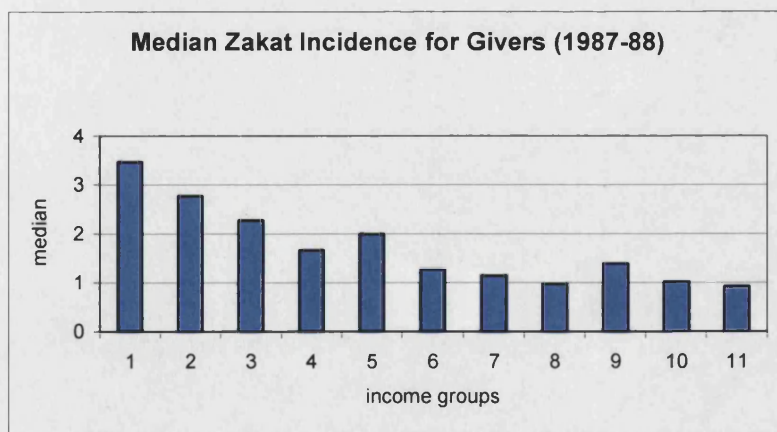
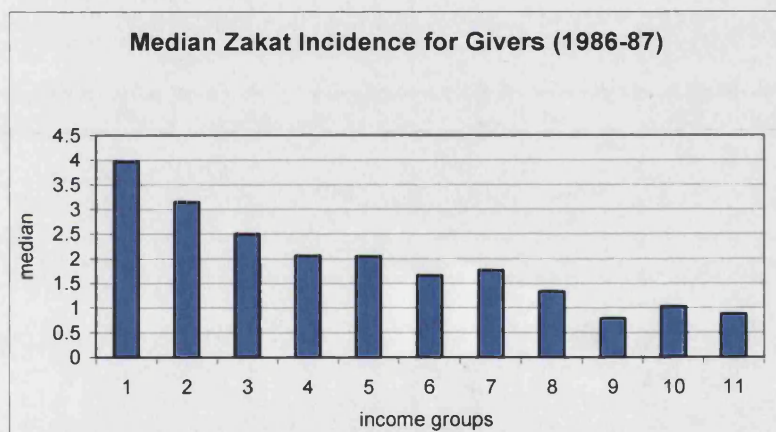
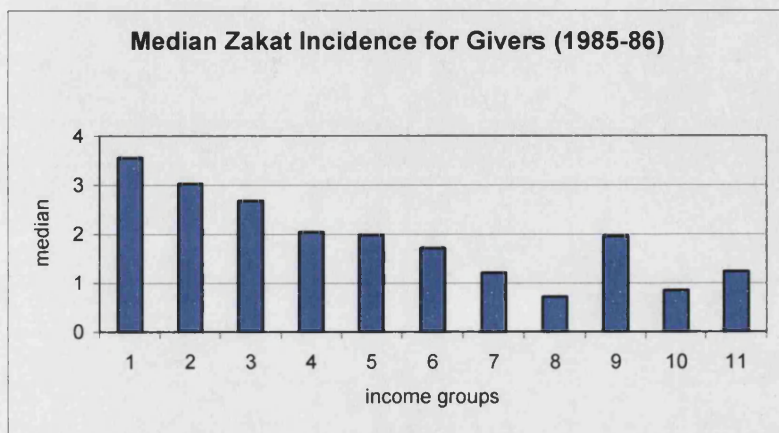
Table 4.19 and graphs 4.16a, b and c below present the median *zakat* incidence per household for givers in rupees in current prices for the 1980s.

**Table 4.19**

<b>Median Zakat Incidence for Givers</b>			
	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>Income Groups</b>	<b>Median Zakat incidence for Givers per Household</b>	<b>Median Zakat incidence for Givers per Household</b>	<b>Median Zakat incidence for Givers per Household</b>
<b>1</b>	3.55	3.96	3.46
<b>2</b>	3.03	3.14	2.77
<b>3</b>	2.68	2.49	2.27
<b>4</b>	2.04	2.07	1.66
<b>5</b>	1.98	2.05	1.99
<b>6</b>	1.72	1.66	1.28
<b>7</b>	1.21	1.77	1.14
<b>8</b>	0.72	1.33	0.97
<b>9</b>	1.96	0.78	1.39
<b>10</b>	0.85	1.02	1.01
<b>11</b>	1.23	0.87	0.92

Source: Based on HIESs and Author's own calculation.

Graphs 4.16a, b & c



Source: Derived from table 4.19.

For the 1980s one observes that the trend of high values of median *zakat* incidence for givers in the lowest income group as compared to the highest income groups still holds true and as such there is no difference in the trend compared to the average *zakat* incidence. This confirms the finding that the lowest income groups bore higher burden of *zakat* than the four richest groups.

For the 1990s (see table 4.20 and graphs 4.17a, b and c below), the median *zakat* incidence for the second two years is still highest in the lowest income groups. However, for 1990-91 it is the seventh income group in which the median reaches its peak. However, this peak is modest, when compared to the median *zakat* incidence in the lowest income as it is only 0.03 percentage points higher than the *zakat* median in the lowest income group.

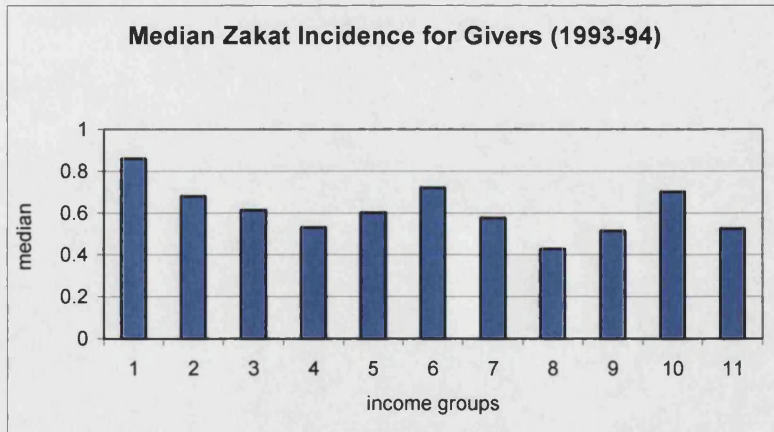
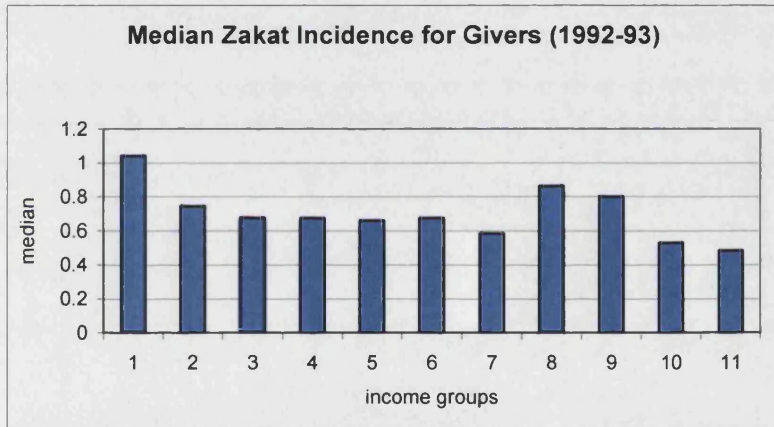
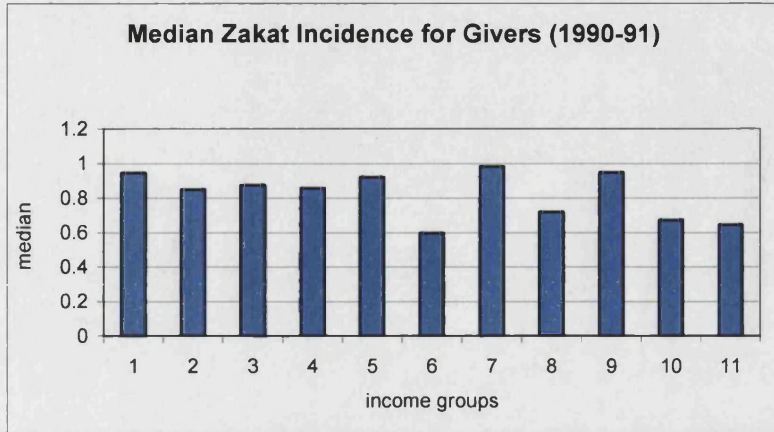
**Table 4.20**

<b>Median Zakat Incidence for Givers</b>			
	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>Income Groups</b>	<b>Median Zakat incidence for Givers per Household</b>	<b>Median Zakat incidence for Givers per Household</b>	<b>Median Zakat incidence for Givers per Household</b>
<b>1</b>	0.95	1.04	0.86
<b>2</b>	0.85	0.74	0.68
<b>3</b>	0.88	0.68	0.61
<b>4</b>	0.86	0.67	0.53
<b>5</b>	0.92	0.66	0.60
<b>6</b>	0.60	0.67	0.72
<b>7</b>	0.98	0.58	0.57
<b>8</b>	0.72	0.86	0.43
<b>9</b>	0.95	0.80	0.51
<b>10</b>	0.67	0.53	0.70
<b>11</b>	0.64	0.48	0.53

Source: Based on HIESs and Author's own calculation.



**Graphs 4.17a, b & c**



Source: Derived from table 4.20.

Thus during both decades, the lowest income groups not only tended to pay a high mean and median percentage of their income in *zakat* but in most years their mean and median *zakat* incidence was higher than that of other income groups.

One could accept the above results at face value, but one reason for the high values of mean *zakat* incidence in the lowest income groups could be that the HIES datasets included observations in which households in the lowest income groups paid substantially more *zakat* than they earned. This should not nullify the fact that the mean and median *zakat* incidence of the higher income groups was in fact lower than that of the lower income groups, and even when the mean and median *zakat* incidence of the higher income groups did surpass that of the lower income groups it remained unimpressive.

What this analysis shows is the clearly regressive nature of *zakat* policy over the two decades. There was a heavier proportionate burden on the poor than the rich, and thus *zakat* practice appeared to contravene the commands of the *Shariah*.

This section has revealed that the Islamists' expectations regarding *zakat* did not come to fruition. The above analyses have shown that the rich individuals, who, according to the *Shariah*, were obliged to pay the *zakat*, were not fulfilling their duty, i.e. the number of non-payers was quite high in high-income groups, and those who did contribute in the highest four income groups did not contribute more than 2.1% of their income on average in the 1980s and 1.3% in the 1990s.

The micro-level analyses of *zakat* show some of the effects of the shape of the *zakat* policy as evaluated in Chapter Three, i.e. the burden of *zakat* was falling on the poorer households

rather than the rich. It can be seen that where attitudes towards *zakat*-giving were concerned the Islamists' ideals that the *zakat* would tap the wealth of the rich did not translate into reality in Pakistan.

The section also revealed that the fulfilment of the Islamists' aspirations regarding *zakat* revenue was dampened due to Pakistan's political and economic historical trajectory. Given the lack of trust between the state and the individual, even the religious nature of *zakat* could not muster the allegiance hoped for by the Islamists.

The next section shows that apart from the above-mentioned reasons for the limited success of *zakat* in raising revenue, there is a third reason to explain the *zakat* performance as reflected in the macro- and micro-level analyses. The reason is given in Chapter Two, which states that it is in the interest of the state to take steps to demonstrate to the public its commitment towards a policy and in the process create trust that would have positive results for that policy. Keeping this in view, the next section aims to show that the lack of effort, the casual attitude and rather lax commitment of not only Zia's government but also successive Pakistani governments to establishing positive reputational effects (as defined in Chapter Two) regarding the *zakat* had a negative effect on the Pakistani population's regard for the *zakat* policy. This aspect also led to a revenue pattern that went against the injunctions of *zakat* as prescribed by the *Shariah*.

#### **4.3 The State's Commitment to *Zakat* and its Effect:**

##### **Zakat after Zia**

Chapter Three highlighted the stance of Zia's government on *zakat*. His government covers most of the period of the present thesis because it was his rule that institutionalised *zakat*,

from its initiation to policy formulation to the creation of the *zakat* infrastructure and finally to its implementation until 1988.

The successive regimes that came to power had little time to show active interest in the workings of the *zakat*. There could be many reasons for this; the first could be that from 1988 (after Zia's death in a plane crash) to 1996 Pakistan experienced three changes of governments, alternating between Prime Minister Benazir Bhutto and Prime Minister Nawaz Sharif.<sup>500</sup>

After 1988 one observes the erosion of the authority and prestige of the *zakat* system, at least under Bhutto's government. During this time the *zakat* system was federalised and de-federalised three times. The federalisation took place during the government of Benazir Bhutto, who was opposed to the 'anti-female' bias incumbent in Zia's Islamisation programmes and hence not too keen on Islamic policies.<sup>501</sup> However, the de-federalisation took place during the rule of Sharif, who not only had been a political ally of Zia but also a supporter of his Islamisation policies (see Introduction).

The first federalisation took place on 30 June 1989. This implied that *zakat* collection and disbursement was to come under the supervision and control of the federal government. It curtailed the powers of the Central *Zakat* Council to approve releases from the Central

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<sup>500</sup> After Zia's death elections were held in 1988 and Benazir Bhutto was sworn in as the first woman prime minister of a Muslim nation. However, in 1990 Benazir Bhutto's government was dismissed on charges of incompetence and corruption. The 1990 national elections saw Bhutto's Pakistan People's Party losing to a coalition of rightist parties led by Nawaz Sharif, who was elected prime minister. In 1993 general elections were held once again in the wake of Sharif's resignation following pressure from military on charges of corruption. The elections brought Bhutto back to power as Prime Minister, but her government was dismissed once again in 1996 following charges of corruption and nepotism. Charles H. Kennedy, "Repugnancy to Islam: Who Decides? Islam and Legal Reform in Pakistan," *The International and Comparative Law Quarterly* 41, no. 4 (1992).

<sup>501</sup> *Ibid.* p. 778

*Zakat* Fund and its authority to make rules, thus subordinating it to require the prior approval of the Federal Government. Additionally, it was no longer held necessary for the chairman of the Central *Zakat* Council to be a judge of the Supreme Court of Pakistan, as any advocate with sufficient experience to become a judge of the Supreme Court could hold the position. The process was reversed in June 1991, however, the system was again federalised in June 1994.<sup>502</sup> In June 1994, the Federal Government not only acquired the power to approve the annual budget of the Central *Zakat* Fund but also obtained the authority to reconstitute the Central *Zakat* Council any time before the expiry of the three-year term of office prescribed in the Ordinance. Additionally, it was no longer necessary for the *Ulema* to be member of the Central *Zakat* Council.<sup>503</sup> The rest of this section will proceed to a more focused evaluation of the state's commitment to *zakat*.

### **Design and Scope of Zakat**

Chapter Three provided a glimpse into the government's commitment to the *zakat* in terms of its design and scope. The policy was far from just as it appeared to target the poor more than the well off. The analyses of the *nisab* of *zakat* revealed that its levy was quite burdensome for the poor but meagre for the rich. This made the *zakat* policy antithetical to the injunctions of Islam; it worked against the ideals of justice and equity by making people who were qualified to receive *zakat* pay it. Additionally, the exemption of stock-in-trade from *zakat*, against public opinion, revealed the government's partiality in favour of the affluent. Furthermore, the scope of the *zakat* was also manipulated via the creation of two schedules in the *zakat* Ordinance (for apparent and non-apparent wealth), the implication of which was that the government was free to form, switch and strengthen alliances for

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<sup>502</sup> Nazir, *Zakat Law*. pp. 162-168

<sup>503</sup> *Ibid.* pp. 162-9

political bargaining, and to carve a way to appease the interest groups. Also, the policy-making process revealed high-handedness and elitism on part of Zia and his cabinet. It was not difficult to see why the public would be cynical towards *zakat* policy.

### *The Zakat Bureaucracy*

It was stated in section two of Chapter Two that the state should ensure that the citizen realises that the recruitment and promotion of the state bureaucracy takes place on grounds of competence and that they should have faith in the bureaucracy. This aspect is extremely important for the smooth operation of *zakat* as well as the bureaucracy is in the forefront of policy implementation.

As mentioned in the first section of this chapter, the Pakistani public regarded 82% of government organisations as corrupt and was highly sceptical about the accountability of these institutions. The bureaucracy, which is responsible for the management and execution of the government's plans and policies, was perceived to be part of the elite running the country and infected with nepotism. Interestingly, this public perception of the bureaucracy did not alter vis-à-vis the *zakat* bureaucracy (even though they were supposed to be pious men carrying out the work of Allah) as is evident from the number of *zakat* non-givers, from the size of *zakat* given and the very small amount of *zakat* given voluntarily as shown in the previous section.

The nature of the *zakat* bureaucracy makes it rather unique as it is voluntary. This makes it cost-effective, as only 10% of *zakat* collection is to be spent on administrative costs

incurred by the LZCs.<sup>504</sup> Even the financial institutions responsible for *zakat* deductions do so voluntarily. As mentioned in Chapter Three, after the promulgation of the *Zakat and Ushr Ordinance* in 1980 an elaborate hierarchical structure was created for the *zakat* administration, forming a whole new order of organisations with a vast network of officials. There was the Central *Zakat* Council and the Provincial *Zakat* Council, which were voluntary organisations. Connected to them were the Central *Zakat* Fund and the Provincial *Zakat* Fund, the expenses of which were to be born by their respective Federal and Provincial governments. Then there were the District *Zakat* Committees and the Sub-District *Zakat* Committees; also of a voluntary nature and unlike the councils at the Federal and the Provincial level, these committees were not backed by any support staff whose expenses would be born by the respective provincial governments. Finally and most important of all, there were the Local *Zakat* Committees, which were also voluntary. However, they were allowed to spend 10% of their funds on administration costs such as a hired typist, travel expenses other *zakat*-related activities. The voluntary nature of the LZCs implied that for their officials *zakat* activities were not their priority as they naturally had more pressing familial and professional duties to fulfil. The effect of this was that the *zakat* system at this crucial level was not only inefficient but consequently ineffective. Shirazi also admits that the voluntary nature of the system jeopardises the dedication to *zakat*.<sup>505</sup> The non-remuneration of the *zakat* system, especially at the LZC level, played its part in forming the nature of the *zakat* bureaucracy as there was little incentive to perform duties that would normally be undertaken as a full-time job.

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<sup>504</sup> Shirazi, *System of Zakat in Pakistan*. p. 108

<sup>505</sup> *Ibid.* p. 109

The credibility and confidence in the *zakat* system rests largely on the conduct and performance of the LZCs as these are the backbone of the entire system. They are in direct contact with the people, with those who receive and sometimes with those who give *zakat*. Throughout the analysed period, the performance of the LZCs has been a cause for concern for the government as their performance has been rather 'unsatisfactory'.<sup>506</sup> The term 'unsatisfactory' implies many things, including the politicisation of the committees, lack of supervision of the *zakat* funds, and the misappropriation, mismanagement, misapplication and non-disbursement of *zakat* funds (targeting will be addressed in the next chapter).

One example of the negligent behaviour of the LZCs is the slack manner in which they maintained the LZ-20 forms. The LZ-20 forms were devised to consolidate all the receipts and disbursements made to or from the LZC every six months.<sup>507</sup> The CZC was concerned by the performance of the LZCs in this regard.<sup>508</sup> They recommended a 'Training Kit' to educate the chairmen of the LZCs and their members about *zakat* operations.<sup>509</sup> It seems that over the years, the training of the *zakat* staff was not prioritised as almost a decade later concern regarding the untrained and ignorant *zakat* personnel re-emerged. This is evident from the call for the training of the LZCs personnel to maintain precise accounts for the sake of accountability and efficiency.<sup>510</sup> A solid example of the lax conduct of the LZCs is recorded in the audit reports for the years 1991-1993 and 1994-95, which point to the non-maintenance of the *mustahiqeen* (deserving persons) register, payment without supporting

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<sup>506</sup> markazi zakat council, "markazi zakat council ki karkardagi report (1981-82)."p. 54. Finance Division & Central Zakat Administration, "Report of the Committee Appointed by the Prime Minister."p. 15

<sup>507</sup> Central Zakat Administration, *The Zakat Manual* (Islamabad: Ministry of Finance, Government of Pakistan, 1982).p. 182

<sup>508</sup> markazi zakat council, "markazi zakat council ki karkardagi report (1981-82)."p. 15. See also, markazi zakat council, "markazi zakat council ki karkardagi report," ed. markazi zakat intizamia (Islamabad: vizarat-e-khazana, 1983-84).p. 16

<sup>509</sup> markazi zakat council, "markazi zakat council ki karkardagi report (1981-82)."p. 15. See also, markazi zakat council, "markazi zakat council ki karkardagi report (1983-84)."p. 83

<sup>510</sup> Finance Division & Central Zakat Administration, "Report of the Committee Appointed by the Prime Minister." (1992) pp. 22 & 24



vouchers, the non-accountable disbursement of *zakat* funds and unacknowledged payments.<sup>511</sup>

There were many other additional problems with the LZCs. They were supposed to meet monthly,<sup>512</sup> but in the formative years of the *zakat* policy, when the bureaucracy of the system should have adhered strictly to the rules, the LZCs were lax in their organisation. It seems that only one third of the LZCs met monthly in 1984, some met bi-monthly, some quarterly and some once in four months. About one quarter of the LZCs met only when the PZC disbursed funds into their accounts, which could imply meeting only once in six to even eight months.<sup>513</sup>

Another major problem with the LZCs was the lack of clarity regarding their role. Many committee members expressed confusion about the lack of specifics as to how they should carry out their duties, which had the potential of creating the duplication of tasks.<sup>514</sup> In order to keep the LZCs up to date with the news of committees' accomplishments, statutes, laws of the system, inspirational articles and the activities of the higher *zakat* administrative tiers, the CZC started the publication of a magazine called 'Al-Zakat' in 1980. However, the effectiveness of this mode of information had major limitations due to the high levels of

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<sup>511</sup> Auditor General of Pakistan, "Audit Reports on the Accounts of Zakat Funds (Disbursements)(18-03-91-06-03-1992 and 07-03-1992-22-02-1993)," ed. Zakat and Ushr Division (Islamabad: 1995). paragraphs 9, 10, 11 & 16. See also, Auditor General of Pakistan, "Audit Report of Zakat Funds (Disbursements) and Revenue Budget of Zakat & Ushr Division 1994-95," ed. Zakat and Ushr Division (Islamabad: 1998). paragraphs 3-01 & 3-02

<sup>512</sup> Central Zakat Administration, *The Zakat Manual*.

<sup>513</sup> Clark, "Pakistan's Zakat and Ushr System".p. 179

<sup>514</sup> Ibid. pp. 209-10

illiteracy among the members of the LZCs.<sup>515</sup> This problem remained until the end of the period of the analysis.<sup>516</sup>

The members of the LZCs gained much prestige from their membership in addition to advantages in the form of not only political patronage but also influence. The politicisation of the *zakat* bureaucracy had seeped to the LZCs, from its very inception. Usually politicisation was evident in the elections to the LZCs, where political bargaining and partisanship were commonplace. The government did show concern over this development, and Zia himself seemed to be concerned by this.<sup>517</sup> The CZC stressed that the people should elect only individuals without political affiliations.<sup>518</sup> On 26 February 1983, the Ordinance was amended to formalise the prohibition on individuals who were serving in the local government bodies from becoming members of the LZCs.<sup>519</sup> However, the prohibition could not stop them from wielding indirect influence on the elections through their extended network.<sup>520</sup> Such circumstances could only magnify the scale of favouritism and partiality in this institution and contribute to the worsening public perception of the *zakat* bureaucracy.

In addition to the politicisation of the *zakat* bureaucracy, the national newspapers had been quick to publicise corruption and malpractices within the *zakat* administration.<sup>521</sup> The press reiterated that for some local *zakat* personnel the knowledge of embezzlement of *zakat*

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<sup>515</sup> Ibid. p. 199

<sup>516</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan (1994)."p. 7

<sup>517</sup> markazi zakat council, "nizam-e-zakat ki kargardagi aur ushr ka nifaaz (1982)."p. 8

<sup>518</sup> markazi zakat council, "markazi zakat council ki karkardagi report," ed. markazi zakat intizamia (Islamabad: vizarat-e-khazana, 1982-83).p. 77

<sup>519</sup> Nazir, *Zakat Law*. p. 151

<sup>520</sup> Finance Division & Central Zakat Administration, "Report of the Committee Appointed by the Prime Minister."p. 22

<sup>521</sup> Staff Reporter, *The Muslim*, 22nd March 1987.

funds is not a novelty,<sup>522</sup> implying that such practices were known but ignored. The adherents of *zakat* in Pakistan could potentially defend the system on the basis that such declarations by newspapers are potentially tainted with political partisanship and thus are not worthy of serious consideration. However, even if the information published in the newspapers was partially correct, it betrays serious flaws and shortcomings in the government's commitment to *zakat*. Moreover, Zia's own hand-picked *Zakat* Administrator General also acknowledged the existence of embezzlement of *zakat* funds in his address to Zia at a high-level government *zakat* forum.<sup>523</sup> Mishandling and malpractices within the *zakat* system were still a problem towards the end of the period under review in this thesis, i.e. the early 1990s. This is supported by the acknowledgement of the Prime Minister's Committee, appointed in 1992 to review the then existing system of *zakat*, when it acknowledged the existence of malpractices, embezzlement and misappropriation of *zakat* funds.<sup>524</sup> To curb this problem, at least at the local level, the Ordinance was amended in June 1994 to restrict the role of the LZCs to the identification of deserving persons. They lost the power to disburse funds, which were to be channelled through banks, post offices and other financial institutions.<sup>525</sup>

The question arises as to how such findings influenced the workings of *zakat*. One only needs to glance at the state of the *zakat* audit to get the answer. The organisation of administrative and financial audits at the local level can be described as inadequate. Given that conducting audits is a way to examine the quality, condition and efficiency of an organisation, the CZC should have been more proficient and forceful in getting the LZCs

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<sup>522</sup> Staff Reporter, "The Zakat System," *The Muslim*, Thursday, 26th November 1987.

<sup>523</sup> markazi zakat council, "nizam-e-zakat ki kargardagi aur ushr ka nifaaz (1982)."p. 42

<sup>524</sup> Finance Division & Central Zakat Administration, "Report of the Committee Appointed by the Prime Minister."p. 23. The report was addressing issues concerning Local *Zakat* Committees.

<sup>525</sup> Nazir, *Zakat Law*. p. 169

audited. However, it seems that the audits of the first, second and third years, i.e. from 1980 to 1983, were not completed for the LZCs until 1985. For the province of Sindh, the audit report for the first three years of the *zakat* was delayed due to the fact that records for 52 LZCs were lost and these had to be reconstructed for audit purposes.<sup>526</sup> This of course was the official version. In general there was a lag of about two to three years before the audit reports were compiled. It seems that though the CZC was aware that LZCs would be the main actors in the functioning of *zakat* policy, the CZC lacked the determination to inculcate accountability in the *zakat* bureaucracy, especially in the formative years of the policy when its performance would have left a lasting impression on the minds of the public.

### **The Punishment Structure of Zakat**

Another important way of endorsing a policy in the eyes of the public and maintaining public confidence in the policy is to have clear punishment laws in case of non-compliant behaviour, mismanagement and malpractices. How did the government treat abuse of *zakat* to create credibility in the system? What was the government attitude to punishing the violators of this important Islamic duty?

There did not seem to be any well-defined and clear punishment structure for mismanagement and malpractices in the *zakat* system in general. In case of mismanagement of the disbursement of *zakat* funds by *zakat* officials, the punishment was somewhat vague. In his address to a high-level forum on *zakat* in Pakistan, the Administrator General stated that apart from 'various legal proceedings' (the nature of

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<sup>526</sup> markazi zakat council, "markazi zakat council ki panchvien salana karkardagi report," ed. markazi zakat intizamia (Islamabad: vizarat-e-khazana, 1984-85), pp. 28-9

which has not been specified in any of the main official reports or publications), wrongly targeted money was to be 'ordered back' (but how this was to be accomplished was not specified either). Additionally, the responsible chairman or member of the committee was to be dismissed and a new one to be appointed via elections.<sup>527</sup> The Administrator General's ultimate position on the matter implied that the fear of God on the part of the *zakat* officials was to be the ultimate guarantee against the corrupt elements in the *zakat* system.<sup>528</sup> In other words, the omnipresence of God was to be the assurance against any abuse of the *zakat* system.

The 'Report of the Committee Appointed by the Prime Minister to Review the Existing System of *Zakat* and *Ushr*' from 1992 seems to be the only comprehensive report of its time that highlighted and acknowledged the shortcomings of the *zakat* system. With regard to the punishment structure of the system, the Committee expressed the view that 'it is essential to have a comprehensive procedure to respond and take action against such Committees as are indulging in malpractices or faltering grossly in the performance of their functions'. The report stressed that there was 'no provision for taking action against misappropriation, defalcation, misuse and misapplication of *zakat* funds on the part of the chairmen and members of *zakat* committees', and suggested amending the Ordinance 'to incorporate penal clauses for such offences and the recovery of misappropriated funds'.<sup>529</sup> It is quite obvious that the *zakat* Ordinance had no penal clauses for dealing with the misappropriation of *zakat* funds. It seems that the government did not take this essential step to improve the public's attitude to the *zakat* and make it credible in their eyes. Perhaps

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<sup>527</sup> markazi zakat council, "nizam-e-zakat ki kargardagi aur ushr ka nifaaz (1982)."pp. 42-3

<sup>528</sup> Ibid.p. 42

<sup>529</sup> Finance Division & Central Zakat Administration, "Report of the Committee Appointed by the Prime Minister."pp. 16 & 23

it was in response to this report that the tenth amendment to the Ordinance (June 1994) declared the misappropriation of *zakat* funds to be a criminal act.<sup>530</sup>

If the sanctioning of lawbreakers in cases of misappropriation and malpractices by *zakat* officials seemed murky, there were certainly no specific arrangements in case of non-compliance by the *zakat* payers. In the words of the *Zakat* Administrator General, 'Payment of *zakat* due was left to the conscience of the person from whom it was due'.<sup>531</sup> Even if one decides not to judge the government harshly for its lack of coercion of the disobedient to display its commitment to the system, one still feels hard pressed to enquire at least about the government's attitude concerning enforcement in the *zakat* system because enforcement would be one way of weeding out and intimidating the would be non-compliant.

Where the authorities could not take action against people exploiting the ambiguities in the *zakat* system in order to avoid it (as analysed earlier in this chapter), they could certainly amend the system over time to check against the abuses. One good example of the laxity of the *zakat* officials towards the enforcement strategy concerned the 'honour system' operated by the banks in Pakistan. In the previous section on declining *zakat* revenue from savings accounts, it was declared that the reason for this decline was an increasing number of affidavits submitted by people declaring themselves to be *Shias* in order to get an exemption from the *zakat*. It seems that such declarations were never investigated by the banks or by the Central *Zakat* Administration as there seemed to be an 'honour system'

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<sup>530</sup> Nazir, *Zakat Law*. p. 170

<sup>531</sup> I.A. Imtiaz, Interview on Zakat, 26 November 2002. To which he added, 'for non-payment of *Ushr* due it was made recoverable as arrears of land revenue', responding to a question posed by the researcher, 'How was the punishment structure of *Zakat* and *Ushr* considered? How severe were the consequences of non-payment?' Mr. I. A. Imtiaz was the first *Zakat* Administrator General from 1980-85. The researcher corresponded with him via fax.

operating between the client and the bank.<sup>532</sup> In many instances the *zakat*-deducting agencies would turn a blind eye to false declarations of faith.

On the part of the *zakat* officials, there seemed a certain degree of complacency about *zakat* revenue. One explanation is that in the *zakat* system's initial years they believed that the system had exceeded their expectations.<sup>533</sup> Delving into the official *zakat* reports for the purpose of investigating attitudes to enforcement, one notices that the CZC's annual reports never tired of mentioning that the Council always kept close accounts of increases or decreases in *zakat* revenue. They asserted that when they perceived the *zakat* revenues to be falling they probed into the reason for this decrease.<sup>534</sup> However, a close study of the standard official *zakat* documents, such as annual reports of the CZC, reveals that the *zakat* officials rarely conducted any investigations into the enforcement of the system.<sup>535</sup>

Considering that enforcement is a channel to daunt the 'would be' non-compliant, so far there is little evidence to show the earnestness of the *zakat* officials in enforcing *zakat* and pushing its frontiers of collection to the maximum. Thus, in addition to the lack of a punishment structure in the face of non-compliant behaviour, mismanagement and malpractices in the *zakat* system, the government's half-hearted commitment also revealed itself through the of absence of a *zakat* policy enforcement strategy. However, similar attitudes regarding non-compliance in secular taxation could be observed in Pakistan, but

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<sup>532</sup> World Bank, "Pakistan Poverty Assessment", p. 36

<sup>533</sup> markazi zakat council, "nizam-e-zakat ki kargardagi aur ushr ka nifaaz (1982)."p. 6

<sup>534</sup> markazi zakat council, "markazi zakat council ki kargardagi report." (1980-81) p. 17. See also, markazi zakat council, "markazi zakat council ki karkardagi report (1983-84)."p. 36. markazi zakat council, "markazi zakat council ki karkardagi report (1982-83)." markazi zakat council, "markazi zakat council ki aathvain salana kargardagi report," ed. makazi zakat intizamia (Islamabad: vizarat-e-khazana, 1987-88). p. 18

<sup>535</sup> Also the financial reports of national institutions such as the State Bank of Pakistan, Economic Surveys of the Finance Ministry and the Five Year Plans of the Planning Commission fail to comment upon the reasons for the decline in *zakat* revenues. The CZC also failed to mention any government strategy to revamp the revenues or enforce *zakat*.

the difference was that the government in this instance introduced measures of enforcement to rectify the situation (see the first half of section 4.2), something that was not done in the case of the *zakat*.

## Conclusion

This chapter showed that in the first instance historically the relationship between the state and the individual was affected adversely by lack of trust due to the political events and the economic policies of the regimes that came into power after the creation of Pakistan. This lack of trust set a shaky ground on which *zakat* policy was to operate. Of greater importance, the chapter revealed that the hallowed *zakat* could not muster the individual's allegiance due to the fact that the Islamic state's commitment to *zakat* policy was far from intense. It failed to create the reputational effects which failed to create trust between the state and the individual limited the *zakat's* performance as a resource mobilising agent. Additionally, the consequences of the shape of the *zakat* policy analysed in Chapter Three became apparent. Thus, so far, some assertions of the Islamists remain unfulfilled.

The chapter showed that *zakat* was not immensely beneficial in raising revenue as was evident from what it raised as a percentage of GDP. Moreover, *zakat* incidence appeared to be regressive, i.e. it failed to tap the resources of the rich but burdened the poor. *Zakat* only appeared to raise more revenue compared to secular taxation as the secular taxation policies were skewed to benefit *zakat*.

For 1987-88, Jehle concurs with the results of this chapter and holds that the higher income groups contributed to reducing poverty and inequality at a rate substantially lower than the least wealthy section of the population. He asserts that those on whom the Islamic



injunction to give *zakat* is greatest seem to put much less of their weight into giving *zakat* than those much poorer than themselves. Shirazi's 1990-91 analyses on *zakat* also concur with the results of the HIES data for the same year and show that the contribution of the rich households to *zakat* was small, which he said implied that they were either not paying or not paying according to the prescribed rates. He was also struck by the oddity of the finding that the low-income groups were paying *zakat*.

The next pressing enquiry is regarding the benefits of *zakat*. Important questions of whether *zakat* succeeded in lessening inequality or reducing the poverty gap still remain to be answered. So far the thesis has shown that the *zakat* policy was geared towards burdening the poorer segments of the society (see Chapter Three), which has become clear by the analyses of the workings of its revenue side in this chapter. The thesis has made this point not only by placing *zakat's* ability to marshal resources within the general political and economic history trajectory of Pakistan but importantly through the level of the state's commitment to *zakat*. Nonetheless, these analyses still do nothing for our understanding of *zakat's* effectiveness regarding its disbursements. In other words one cannot make a confident statement regarding *zakat's* ability to reduce poverty and inequality. It would not be wrong to state that efficiency in targeting and level of disbursements can still play an active role in meeting the objectives of the policy and thus contributing to its effectiveness.

## Chapter Five

### The Effects of *Zakat*

#### Introduction

This chapter examines the benefit side of *zakat* in Pakistan. Enthusiasts of *zakat* argue that it has major potential to reduce poverty and income inequality. In addition, as stated in Chapter Three, the official objective of *zakat* was to narrow the gap between the rich and the poor, and this chapter thus assesses this ability of *zakat* to meet these objectives.

Chapter Three showed that *zakat*, as a religious welfare instrument, was not immune to politicisation, which consequently had the potential to divert it from its theological and ideological objectives. Subsequently, Chapter Four showed the effects of such politicisation on *zakat's* revenue structure and pattern, which showed that *zakat's* incidence fell disproportionately on the poorer segments of the society, its structure was regressive, there were many who were not complying with the *zakat* law and finally, those who were fulfilling this religious obligation were not giving very much. So far the divine nature of *zakat* does not seem to have the positive effect it was supposed to. This situation was exacerbated by the state's far from impressive commitment to the *zakat* i.e. the failure of the state to establish reputational effects.

The analyses undertaken in the preceding chapters provide little idea as to how *zakat* might perform regarding disbursement. These chapters do not provide an insight into the significance of *zakat* for its target population. Consequently, these do not address the practical outcome of *zakat's* rationale, i.e. its ability to reduce poverty and inequality. Thus

it would be pertinent to analyse these issues for a comprehensive understanding of the working of *zakat* policy in Pakistan because regardless of the conclusions reached in the preceding chapters, the *zakat* policy may still prove to be promising where its objectives are concerned. These analyses of *zakat* disbursement will not only provide an insight into whether *zakat* met its official objectives and stood up to its religious rhetoric of creating equality and alleviating poverty, but will also consequently shed further light on the Islamic state's commitment to the *zakat* policy.

In order to address this issue section 5.1 looks at the historical evolution of social welfare in Pakistan since its creation in 1947 with the purpose of presenting its condition before the introduction of *zakat*. The aim is to place *zakat* within a historical contextualisation of social welfare in Pakistan. Section 5.2 traces the disbursement trajectory of *zakat* at the national aggregate level to get an overall assessment of the disbursement policy. Section 5.3 delves into the micro-level assessment of *zakat* by examining the disbursement pattern at the household level through the HIES. This section determines who received *zakat* and how much for the six years from 1985-88 to 1990-91 and 1992-94. Finally, section 5.4 analyses the effects of *zakat* on the level of poverty through the head count and poverty gap approach, and on income inequality through the Sen-Kohl-Atkinson index.

### **5.1 An outline of the History of Social Welfare in Pakistan**

The principle of social justice is deeply rooted in the Islamic faith, and given that Pakistan is the only country in the Islamic world to be founded in the name of Islam, it would be surprising if this principle were not also deeply embedded in state structures. On 12 March 1949, when Pakistan's first law-making body, the Constituent Assembly, passed the Objectives Resolution, it laid down the principles of assuring full provision of social justice

to the people of Pakistan. Subsequent constitutions also duly attended to this subject. The principles regarding social welfare were incorporated in Articles 28 and 29 of the 1956 Constitution under the Directives Principles of the State Policy<sup>536</sup> and Article 8 under Principles of Policy of the 1962 Constitution.<sup>537</sup> Additionally, the 1973 Constitution also reiterated similar principles in Articles 37 and 38 under Principles of Policy.<sup>538</sup>

After the Partition and the subsequent creation of Pakistan in 1947, Pakistan was facing challenges on many fronts. Not only did it need to establish a system of governance and strengthen its defences, it had also to cater to the social welfare needs of millions of refugees migrating from India into cities such as Lahore and Karachi. In Karachi alone, refugees had swelled the population from 300,000 before 1947 to 1,300,000 by 1951.<sup>539</sup> Pakistan did not have the resources to manage such an assault as its public services were not equipped for such a situation and the cities' capacities were exhausted.

It was in 1952 that the Government took the first step in seeking a formal solution to the social welfare problems in Pakistan. For this purpose, it sought the assistance of the United Nations Technical Assistance Administration to study the existing facilities and resources in Pakistan for the elaboration of the social welfare programme.<sup>540</sup> Consequently a group of UN Social Welfare Consultants arrived in Karachi in the same year, marking the beginning of planned social work in Pakistan.

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<sup>536</sup> Ministry of Law, *The Constitution of the Islamic Republic of Pakistan* (Karachi: Department of Advertising, Films and Publications, Government of Pakistan, 1956).

<sup>537</sup> Government of Pakistan, *Constitution of Pakistan 1962*.

<sup>538</sup> National Assembly of Pakistan, *The Constitution of the Islamic Republic of Pakistan* (Karachi: Manager of Publications, 1973).

<sup>539</sup> Rehmatullah, *Social Welfare in Pakistan*.pp. 1-2

<sup>540</sup> S. A. Quddus, *Social Change in Pakistan* (Lahore: Progressive Publishers, 1990).p. 187

On 2 April 1953, 65 social workers trained and sponsored by the government and the United Nations Technical Assistance Administration took the Oath of Dedication. This was a significant landmark in the history of social welfare in Pakistan as it formalised the objectives of social work and transformed it from a charity-oriented voluntary activity into a modern and professional process. These trainees were to contribute to the promotion of social welfare activities in the government and the private sector.<sup>541</sup>

Later that year, in June 1953 the government set up a Planning Board (which later gained the status of the National Planning Commission and became the highest planning authority in Pakistan), the aim of which was to prepare the First Five Year Plan for the period 1955-60 (for every sector).<sup>542</sup> It is important to point out here that the Planning Board with its Five Year Plan was not set up to deal directly with the social welfare issues of the country or to find ways of funding education and health programmes, but rather its rationale was to outline the most effective and balanced utilisation of national resources. This was done with the acknowledgment that the young country did not have the means to finance its programmes of education, health and social development. The implication of this belief was that the 'Social Welfare' heading was not to be included in the First Five Year Plan. It was only due to the efforts of the UN team of experts, which lobbied the government officials and experts in the Planning Board, that the 'Social Welfare' head was made part of the First Five Year Plan.<sup>543</sup> Under this Plan, a Social Welfare section was created as a permanent part of the Planning Board dealing specifically with social welfare programmes. These programmes were carried out by the Departments of Health, Labour, Education and

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<sup>541</sup> Rehmatullah, *Social Welfare in Pakistan*.pp. 1 & 10

<sup>542</sup> M. Khalid, *Welfare State A Case Study of Pakistan* (Karachi: Royal Book Company, 1968).pp. 273-4

<sup>543</sup> Rehmatullah, *Social Welfare in Pakistan*.p. 73

Housing, while the Social Welfare Section of the Planning Commission executed planning and co-ordination.<sup>544</sup>

The above narrative has provided a quick glance at the history of the establishment of social welfare structures in Pakistan; the following account will examine the practical results.

Under the First Five Year Plan in the Social Welfare domain, community development programmes were to be given priority, including the training of social workers, the payment of grants in aid to voluntary agencies for remedial and curative work and the undertaking of research into a scientific approach to social welfare development.<sup>545</sup> Direct poverty relief was not a priority. Although this would have had an immediate affect on the welfare of the population, it would have had limited long-term benefit, and besides the government did not have the funds for such superficial relief.<sup>546</sup> The government did not reach its targets under this plan. It took only limited action on social welfare, reflecting the greater importance attached to areas such as industry and agriculture. Also, there was no specified department to prioritise social welfare activities.<sup>547</sup> Crucially, funding for social welfare was inadequate. Although Pakistan was to be a welfare state from its inception,<sup>548</sup> the funding did not reflect these ambitions. As seen in Chapter Three, social spending under the First Five Year Plan was a mere 6.7% of total development expenditure (see table 3.2 and graph 3.2) and social welfare and population welfare were the lowest (see table 3.2 and

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<sup>544</sup> Khalid, *Welfare State A Case Study of Pakistan*.pp. 273-4. Until 1955 matters pertaining to social welfare were handled by a department of the Ministry of Works.

<sup>545</sup> Planning Commission, "The Second Five Year Plan 1960-65," ed. Government of Pakistan Planning Commission (The Manager of Publications, Karachi, 1960).p. 382

<sup>546</sup> Rehmatullah, *Social Welfare in Pakistan*.p. 89

<sup>547</sup> Planning Commission, "The Second Five Year Plan 1960-65."p. 382

<sup>548</sup> Khalid, *Welfare State A Case Study of Pakistan*.pp. 229-237

graph 3.2). This was aggravated by the fact that for the First Plan, only 25% of total allocations were spent.<sup>549</sup>

The situation for the rest of the four Five Year Plans did not alter significantly in terms of social welfare. Not only were the allocations to social welfare minimal (see Chapter Three tables 3.1 & 3.2), but there were also problems with utilising the funds for most of the Five Year Plans. There were several reasons for this: firstly, the whole system of social work was new to the country, and there had to be substantial learning by doing. Responsibility for social services was too closely centralised in the government departments and did not extend to the local bodies for the first two Five Year Plans. Because of these shortfalls, it was not possible to establish a nucleus of social welfare services for future development.<sup>550</sup> In certain cases, such as the Fourth Five Year Plan, social welfare programmes had to be abandoned due to financial stringency on account of the Indo-Pakistan War.<sup>551</sup>

Secondly, the goals and targets of the Plans were not well defined with the result that the Central and the Provincial Governments were unable to formulate clear-cut strategies for social welfare. Also, things drifted according to the personal idiosyncrasies of authorities responsible for social welfare from time to time, thus leading to conflicting decisions. Moreover, there was a lack of legal provisions covering activities that retarded implementation. For example, when welfare homes were set up to accommodate beggars, it was found that the law enabling the authorities to round up the beggars did not exist.<sup>552</sup>

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<sup>549</sup> Plan Publicity Cell, "Social Welfare in Pakistan", 1973, Planning Commission, Islamabad pp. 22-3

<sup>550</sup> Ibid. p. 23

<sup>551</sup> S. K. Hak, *Towards Welfare State-Pakistan* (Lahore: Child Welfare & In-Service Training Institute, 1971), p. 65

<sup>552</sup> Ibid. p. 37

The brief narrative of the evolution and the state of secular social welfare in Pakistan presented above introduces a backdrop for undertaking an analysis of *zakat* as a distributive element. It should help to place *zakat* within a historical contextualisation of social welfare in Pakistan. The next section considers *zakat* disbursements and transfers at the aggregate national level.

## 5.2 Analyses of Aggregate *Zakat* Disbursement

According to the *zakat* policy in Pakistan, the Central *Zakat* Council (CZC) controls allocations from the Central *Zakat* Fund. A certain amount is retained by the Central *Zakat* Administration (CZA) to be disbursed directly to institutions operating at the national level.<sup>553</sup> The sum or percentage retained by the Central *Zakat* Administration is decided arbitrarily and is not mentioned in the *Zakat* Manual or any other primary or secondary source. The sources mention only that the CZA retains ‘a certain amount before transferring funds to the provinces and the capital city’. The national institutions that received *zakat* from the CZA are the Fauji Foundation, the Fatimid Foundation, the Al-Shifa Eye Trust Hospital, the Pakistan Institute of Medical Sciences, Nuclear Medicine Oncology and Radiotherapy Institute Hospital, the Layton Rehmatullah Benevolent Trust and the Marie Adelaide Leprosy Centre. Additionally, the CZA is to disburse funds to the provinces for calamities, and for this purpose there exists a revolving fund of rupees hundred million at the CZA level.<sup>554</sup> However, the major proportion of the money is transferred to the four Provincial *Zakat* Funds in two instalments each year. The proportion of funds transferred to

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<sup>553</sup> Kahf, "Zakah Management in Muslim Societies."p. 27. Central Zakat Administration, "Zakat and Ushr System in Pakistan (1994)." p. 6. In 1987 the CZC launched a revolving fund of Rs.100 million for natural disasters and also started disbursing funds to start a housing scheme for the deserving and funds to set up almshouses for beggars. In 1992 Pakistan Bait-ul-Maal was founded to provide assistance to those in need who were not covered by *zakat*. It is financed by the Federal Government, but it also receives small grants from the CZF. Central Zakat Administration, "Zakat and Ushr System in Pakistan (1991)."p. 107

<sup>554</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan (1991)." p. 15



each province roughly equals that province's share of Pakistan's population.<sup>555</sup> This share is as follows:

**Province's Share of Pakistan's Population**

Punjab	59%
Sindh	20%
NWFP	14%
Balauchistan	6%
Islamabad Capital Territory	1%

Source: Central Zakat Administration, *Zakat and Ushr System in Pakistan*, Ministry of Finance, Government of Pakistan, November 1991, p. 10.

As stated in Chapter Three the Pakistani *zakat* law permits funds to be utilised for the poor, widows, orphans and the handicapped eligible to receive *zakat* for their subsistence or rehabilitation, directly or indirectly through educational institutions, hospitals or clinics in the area connected with the local *Zakat* Fund. Rehabilitation requires providing for education, training, skill formation, medical treatment, and the provision of artificial limbs, production tools and initial capital for small businesses. Pakistan's *zakat* law requires that the rehabilitation beneficiary be helped in kind rather than cash.<sup>556</sup> The rationale is that in the long run, the deserving should become self-sufficient and should not be dependant on *zakat*.<sup>557</sup>

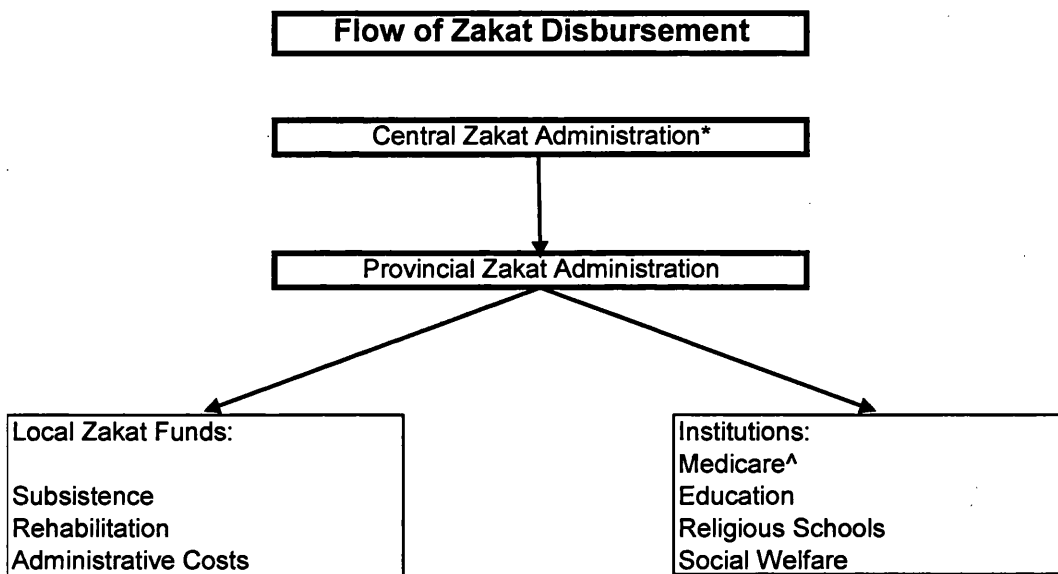
<sup>555</sup> Clark, "Pakistan's Zakat and Ushr System".p. 233

<sup>556</sup> M. A. Khan, "An Evaluation of Zakah Control System in Pakistan," *Islamic Studies* 32, no. 4 (1993). p. 249

<sup>557</sup> Imtiaz, "Zakah: The Pakistan Model and Experience". p. 171

Figure 5.1 below shows the route of the *zakat* disbursement from the CZA to the Provincial *Zakat* Funds, which in turn distribute money to the Local *Zakat* Funds and the institutions.<sup>558</sup>

**Figure 5.1**



Source: Central *Zakat* Administration, *Zakat and Ushr System in Pakistan*, Ministry of Finance, Government of Pakistan, November 1991.

\* Disbursements made out to national level institutions and calamity fund.

^ Medicare is the name given to a health provision programme falling under one of the heads for *zakat* expenditure administered by the government of Pakistan.

The proportions of transfers from the Provincial *Zakat* Funds to the Local *Zakat* Funds and institutions have changed over the years. The allocations to the different heads of *zakat* expenditure have not remained constant either. It appears that before 1983, the *zakat* transfer and disbursement proportions were not formally allocated by the CZA, which implied that these were carried out rather arbitrarily. However in 1984, the CZC adopted guidelines for the precise proportions of *zakat* funds to be distributed from the provinces to

<sup>558</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan (1991)."p. 15

the institutions and the LZC. For this purpose the CZC instructed the PZC to make lists of institutions for *zakat* disbursements.<sup>559</sup> Table 5.1 below shows the proportions of *zakat* transfers as formally prescribed by the CZC, from the Provincial *Zakat* Funds to the LZCs and to the institutions. The table also shows the changes in these proportions over the years.

**Table 5.1**

<b>Change in the Proportions of Zakat Transfers &amp; Disbursements from PZFs to LZCs &amp; Institutions and from LZCs for Rehabilitation and Subsistence</b>				
	<b>1984-86</b>	<b>1986-88</b>	<b>1988-91</b>	<b>1991-1995</b>
<b>Via Local Zakat Committees to Individuals</b>	<b>50%</b>	<b>50%</b>	<b>60%</b>	<b>60%</b>
subsistence	65%	45%	45%	45%
rehabilitation	30%	45%	45%	45%
administration	~	10%	10%	10%
primary school scholarships	5%	~	~	~
<b>Via PZF to Institutions</b>	<b>50%</b>	<b>50%</b>	<b>40%</b>	<b>40%</b>
scholarships/ stipends	50%	50%	40%	50%
religious schools	20%	20%	20%	20%
social welfare	10%	10%	20%	10%
health	10%	10%	20%	10%
other*	10%	10%	~	10%

**Sources:**

1984-86= CZC Annual Report 1983-84, Central Zakat Administration, Ministry of Finance, Government of Pakistan, Islamabad, December 1984, pp.44-45

1986-88= CZC Annual Report 1986-87, Central Zakat Administration, Ministry of Finance, Government of Pakistan, Islamabad, pp. 13 & 23. Also, CZC Minutes of Meetings, 1988, p. 4

1988-91= Zakat and Ush System in Pakistan, November, 1991, p. 15

1991-95= Report of the Committee Appointed by the Prime Minister to Review the Existing System of Zakat and Ushr, January 1992, p. 12

other\*= It is to be preferably utilised for education. Report of the Committee Appointed by the Prime Minister to Review the Existing System of Zakat and Ushr, January 1992, p. 12

<sup>559</sup> Clark, "Pakistan's Zakat and Ushr System". p. 236

The reason for formalising the proportions of *zakat* transfers was that after the first two years of the *zakat* system, the CZC felt that a large amount of *zakat* money was being disbursed for subsistence and that more effort should be laid on the rehabilitation of the recipients. In the first year of the system, i.e. 1980-81, around 85% of the *zakat* money transferred to the LZCs was spent on subsistence and only 15% on rehabilitation. However, for 1981-82 the proportion spent on rehabilitation was doubled to 30%.<sup>560</sup> In 1984 the CZC proposed that disbursements for rehabilitation should be increased. From 1986 onwards, the proportions of *zakat* expenditure on subsistence and rehabilitation were equalised, as can be seen from the table above. On the other hand, as more and more stress was laid upon rehabilitation and direct subsistence to the recipients, the proportion between *zakat* disbursements to these heads and institutions changed from an equal proportion to 60% for the rehabilitation and subsistence and 40% for the institutions.<sup>561</sup>

The following table 5.2 shows the *zakat* disbursements from 1980 to 1994 as percentages of GDP and in current and constant prices.

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<sup>560</sup> markazi zakat council, "markazi zakat council ki karkardagi report (1981-82)."pp. 7, 14 & 40. markazi zakat council, "markazi zakat council ki karkardagi report (1982-83)."pp. 56 & 68

<sup>561</sup> markazi zakat council, "markazi zakat council ki aathvain salana kargardagi report." (1987-88) pp. 37-8. Central Zakat Administration, "Zakat and Ushr System in Pakistan (1991)." p. 3

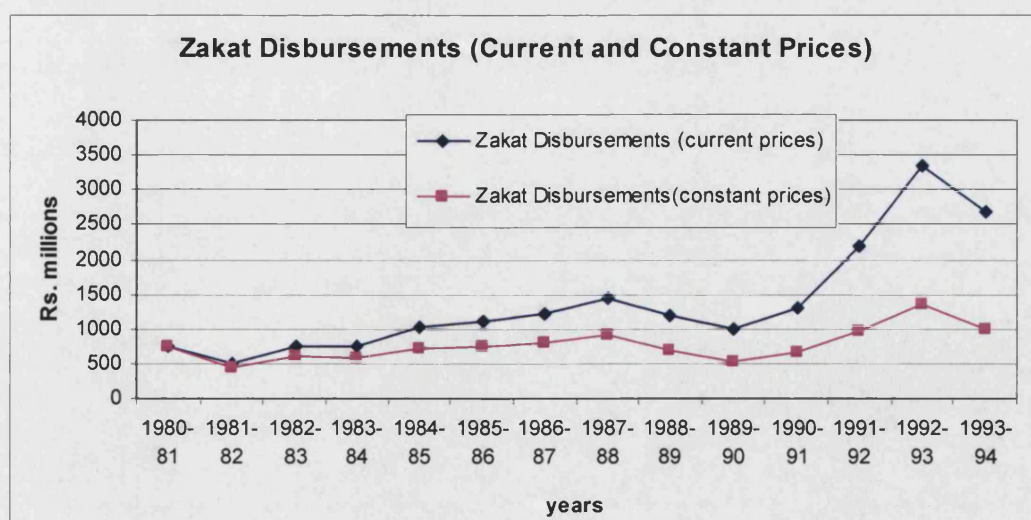
**Table 5.2**

**Total Zakat Disbursements from the Central Zakat Administration  
(current & constant prices & as % of GDP)  
(Rs. Millions)**

Years	Zakat Disbursements (current prices)	% of GDP	Zakat Disbursements (constant prices-rebased to 1980 deflator)
1980-81	750.0	0.3	750.0
1981-82	500.0	0.2	450.3
1982-83	751.4	0.2	618.8
1983-84	751.5	0.2	587.9
1984-85	1007.2	0.2	718.6
1985-86	1105.8	0.2	754.7
1986-87	1215.6	0.2	803.1
1987-88	1448.2	0.3	915.4
1988-89	1175.7	0.2	678.0
1989-90	981.9	0.1	521.5
1990-91	1304.3	0.2	650.7
1991-92	2183.7	0.2	963.6
1992-93	3349.9	0.3	1342.8
1993-94	2688.28	0.2	991.62

Source: Nusratullah Khan (Joint Secretary, *Zakat and Ushr* Wing), Presentation on System of *Zakat* in Pakistan, (2002) International Training Seminar on *Zakah* Management, p. 24. www.datastream.net and Author's own calculations.

**Graph 5.1**



Source: Derived from table 5.2.

The above table and graph reveal that *zakat* disbursements have generally been on the increase till 1987-88 in current and constant prices, but plummeted for two years from 1988-89 to 1989-90 only to resume their climb until 1993. There was a 16% increase in the *zakat* disbursements in current prices from 1986-87 to 1987-88 because the CZA decided to augment disbursements due to natural calamities.<sup>562</sup> From 1991-92 onwards, there seemed to be a positive effort on part of the CZC to disburse larger amounts of *zakat*. This is again due to disbursements for natural calamities especially during 1992-93 which not only increased *zakat* disbursements by 54% in current prices but also by almost 40% in real terms.

Table 5.2 above also shows that the current *zakat* disbursements lingered at around 0.2% of GDP on average. When compared with the *zakat* collection for similar years, it reveals that *zakat* collection (though only 0.3% of the GDP on average and assessed as unimpressive in Chapter Four) was performing relatively better than *zakat* disbursements by 0.1% on average. To get a better visualisation of the comparison of *zakat* collection and disbursement, table 5.3 and graph 5.2 below present *zakat* collection and disbursement at nominal prices from 1980 to 1994.

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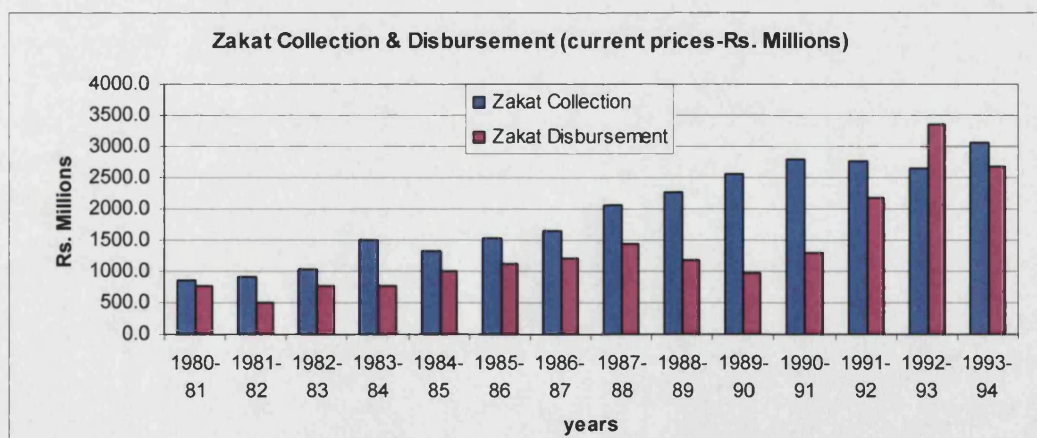
<sup>562</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan (1991)." pp. 12 & 15. Butt, "Institutional Framework of Zakah." p. 389.

**Table 5.3**

Total Zakat Collection & Disbursement (current prices Rs. In Millions)		
Years	Zakat Collection	Zakat Disbursement
1980-81	844.3	750
1981-82	902.4	500
1982-83	1027.0	751.4
1983-84	1490.0	751.5
1984-85	1334.8	1007.2
1985-86	1521.0	1105.8
1986-87	1658.9	1215.6
1987-88	2069.5	1448.2
1988-89	2279.4	1175.7
1989-90	2573.2	981.9
1990-91	2792.0	1304.3
1991-92	2770.0	2183.7
1992-93	2658.4	3349.9
1993-94	3073.2	2688.0

Source: *Zakat* Collection= State Bank of Pakistan 1981-1995, *Zakat* Disbursement Nusratullah Khan (Joint Secretary, *Zakat* and *Ushr* Wing), Presentation on System of *Zakat* in Pakistan, (2002).

**Graph 5.2**



Source: Derived from table 5.3.

The excess of collections over total disbursements perhaps reveals a certain inclination towards uncertainty and insecurity on the part of the CZC. It appears that this attitude had

its roots in the CZC's failure to prepare financial plans, lay down its operational targets and form detailed *zakat* budgets. The consequence of this was that it was unable to achieve efficiency and effectiveness in its operations.<sup>563</sup> The lack of planning was an institutional phenomenon, as a study of the *Zakat* Ordinance reveals that planning was not even mentioned in the *Zakat* Ordinance.<sup>564</sup> Going back to the argument about the state commitment to a policy, here is another dynamic that shows the shaky commitment of the state to the *zakat* policy.

Table 5.4 below shows estimated cash balances and estimated cumulated cash balances, defined as the difference between *zakat* collection and disbursements from 1980-94.

**Table 5.4**

**Estimated Cash Balances with the Central Zakat Fund  
(current prices- Rs. Million)**

<b>Years</b>	<b>Cash Balances</b>	<b>Estimated Cumulated Cash Balances</b>
1980-81	94.3	94.3
1981-82	402.4	496.7
1982-83	275.56	772.26
1983-84	738.48	1510.74
1984-85	327.56	1838.3
1985-86	415.18	2253.48
1986-87	443.31	2696.79
1987-88	621.32	3318.11
1988-89	1103.72	4421.83
1989-90	1591.29	6013.12
1990-91	1487.74	7500.86
1991-92	586.34	8087.2
1992-93	-691.46	7395.74
1993-94	385.20	7780.94

Source: Derived from table 5.3.

<sup>563</sup> Khan, "Zakah Control System in Pakistan." pp. 428-9

<sup>564</sup> Kahf, "Zakah Management in Muslim Societies." p. 29 *Zakat and Ushr Ordinance, 1980.*



The above table reveals that the CZA in any year has been unable to disburse all the *zakat* funds collected, as a consequence of which it has large cash balances. Kahf and Shirazi concur on this point.<sup>565</sup> It shows that at the end of 1992 almost 30% of the *zakat* collections that should have been spent for the betterment of the *zakat* recipients were unspent and sitting in the Central *Zakat* Funds, with the exception of 1992-93 and 1993-94, when it seems that the accumulated balances from the previous years were finally being spent, which concurs with graph 5.2. Kahf calculates the unspent amount accumulated at the central, provincial and local committees to be more than 40% of the local *zakat* received.<sup>566</sup>

There are many reasons for the slack performance of *zakat* disbursement. The first was that there are no controls against the retention of idle *zakat* funds with the State Bank of Pakistan.<sup>567</sup> Additionally, the CZC was cautious with the disbursements and concerned about the embezzlement of *zakat* funds at the local level. Although, the poor levels of disbursements continued in later years due to indifference on part of the *zakat* administration.<sup>568</sup> It had been noticed that the *zakat* funds lying in the State Bank of Pakistan have been used for budgetary support rather than for the benefit of the *zakat* recipients.<sup>569</sup> The limitations of the *zakat* administration as a whole have been discussed in detail in Chapter Four.

The situation of low disbursements was aggravated by slow disbursements on part of the PZA. There were occasions in the early 1980s when some PZAs would hold on to money in

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<sup>565</sup> Kahf, "Zakah Management in Muslim Societies."p. 29. Shirazi, *System of Zakat in Pakistan*. p. 50

<sup>566</sup> Kahf, "Zakah Management in Muslim Societies."p. 30

<sup>567</sup> M. A. Khan, "Zakah Control System in Pakistan."p. 428

<sup>568</sup> Imtiaz. Interview 26<sup>th</sup> November 2002. The question posed by the Researcher was: 'Why, according to you, have *zakat* funds accumulated in the Central *Zakat* Fund Account kept by the State Bank of Pakistan?' Mr Imtiaz's reply was: 'In the beginning, due to caution; later, on account of indifference.'

<sup>569</sup> Imtiaz, "Management of Zakah Collection and Disbursement".p. 25

order to collect interest on it.<sup>570</sup> The *Zakat* Ordinance does not assess the legality of this practise however it is safe to assert that it goes completely against the humanitarian spirit of *zakat* and against the dictates of Islam. Furthermore, it demonstrates the lack of true state commitment to the religious ideals of *zakat*. It appears that the practice of investing *zakat* money in profit and loss sharing schemes had been encouraged in the mid-1990s.<sup>571</sup> it seems that the PZAs' practice of not disbursing *zakat* funds promptly carried on till the late 1990s and early 2000.<sup>572</sup>

It is interesting to note that in June 1994, an amendment to the Ordinance allowed for the investment of *zakat* funds in instruments that were not interest-bearing.<sup>573</sup> Therefore, in 1995 the CZC approved the investment of Rs.500 million from the *zakat* fund in Investment Corporation of Pakistan Certificates and National Investment Trust Units<sup>574</sup> (see glossary for definition). This *zakat* money became unavailable to the beneficiaries, as the NIT Units could not be cashed in because of liquidity problems.<sup>575</sup> It is not clear whether such investments were supposed to finance other government activities, or to increase the *zakat* stock so as to improve the system in terms of collection, disbursement and administration. However, considering the unspent cash balances with the CZF (as seen from table 5.4), the latter seems unlikely.

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<sup>570</sup> Clark, "Pakistan's Zakat and Ushr System". pp.236-37

<sup>571</sup> Shirazi, *System of Zakat in Pakistan*. p. 50

<sup>572</sup> Imtiaz, "Management of Zakah Collection and Disbursement". p. 36

<sup>573</sup> Nazir, *Zakat Law*.p. 169

<sup>574</sup> Ministry of Religious Affairs Zakat and Ushr and Minorities Affairs, "Minutes of the Meetings of the Central Zakat Council 12th Volume (65th to 75th Meetings)", November, 1999, Ministry of Religious Affairs (Zakat and Ushr Wing), Islamabad p. 11

<sup>575</sup> Imtiaz. Interview 26<sup>th</sup> November 2002. The researcher's question was: 'What were the practical implications of the *zakat* money being invested? To which Mr. Imtiaz replied, 'Zakat monies (and consequently the legitimate interests of the *Mustahiqeen*) were put at undue risk and that too quite unnecessarily. It is my impression that the NIT Units in which enormous sums of money were invested cannot now be cashed in due to NIT's liquidity problems. If so, virtually the money invested is not available for the benefit of the *mustahiqeen-e-zakat*. That amounts to a breach of trust.' The researcher asked, 'Was the money lost? To which Mr. Imtiaz replied, 'In a manner of speaking, yes'.

It will be pertinent to get a disaggregated picture of the *zakat* disbursements behind table 5.2 above, which will demonstrate the proportions in which the funds were being spent on different headings of *zakat* expenditure. The following table 5.5 and graph 5.3 below present *zakat* disbursements from 1980-92 in nominal terms. Many of the following analyses end in 1992 this is because of the unavailability of data after this year. (The problem with the data have been explained in the Introduction).

The following analysis proceeds by firstly examining institutions to which *zakat* was disbursed and then proceeds to show whether this disbursements was according to the proportions set out in table 5.1. This should give an insight into the workings of the *zakat* policy at a practical level. To start with, the following table shows *zakat* disbursements to different heads in nominal prices.

**Table 5.5**

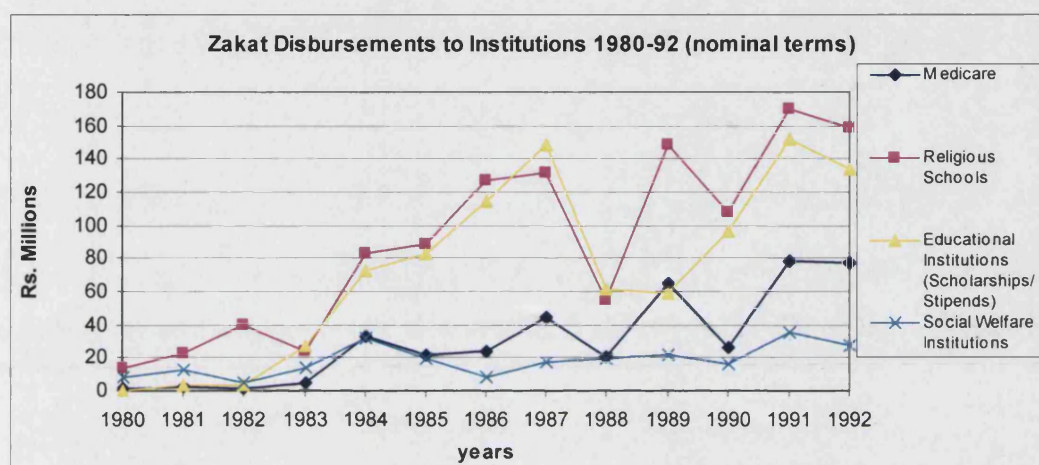
**Zakat Disbursements for Different Zakat Heads (nominal terms - Rs. million)**

Years	Medicare	Religious Schools	Institutions (Scholarships/ Stipends)	Social Welfare Institutions	Subsistence	Rehabilitation	Natural Calamities	Total
1980	1.38	13.87	0.04	7.94	438.44	2.56	-	464.23
1981	2.27	22.63	3.4	12.6	528.5	16.09	-	585.49
1982	0.65	39.11	3.04	4.27	279.34	82.03	-	408.44
1983	4.65	23.45	26.73	13.96	769.09	145.04	-	982.92
1984	33.36	82.97	72.09	31.25	533.93	96.24	-	849.84
1985	21.52	88.45	82.149	19.52	186.83	158.75	-	557.219
1986	24.27	126.96	114.08	8.36	462.92	427.04	-	1163.63
1987	44.13	131.32	148.46	16.78	349.27	453.05	147.5	1290.51
1988	20.49	54.4	61.12	18.82	320.22	436.82	17.98	929.85
1989	64.19	148.62	58.53	21.02	278.67	251.61	-	822.64
1990	25.83	107.65	96.34	15.99	465.63	406.04	156.88	1274.36
1991	77.83	169.98	151.52	35.53	1120.52	353.69	12.8	1921.87
1992	76.44	158.97	134.15	27.42	708.62	587.79	2109.15	3802.54

Source: Central *Zakat* Administration, 1994 *Zakat* and *Ushr* System in Pakistan, Ministry of Finance.

Apart from providing the official numbers of *zakat* disbursement for different heads the above table does not give any insight for further analysis. The following graph will present a clearer picture of *zakat* disbursements to institutions.

**Graph 5.3**



Source: Derived from table 5.5.

Graph 5.3 reveals that religious institutions ranked the highest among the recipients of *zakat* funds. This is consistent with the policy of the CZC.<sup>576</sup> Since the imposition of *zakat* in Pakistan had major support from the religious groups, the CZC determined that religious schools ought to receive considerable support via *zakat* policy. Furthermore, voluntary donations to religious schools decreased dramatically after the formal imposition of *zakat* in the country, and the religious factions petitioned the Government to increase the proportion of *zakat* spent on religious schools. Thus in 1984 when *zakat* disbursement proportions were being formalised, it was recommended by the CZC that *zakat* disbursements to the

<sup>576</sup> markazi zakat council, "markazi zakat council ki kargardagi report." (1980-81) p. 25. markazi zakat council, "markazi zakat council ki saatveen salana karkardagi report," ed. makazi zakat intizamia (vizarat-e-khazana, 1986-87).p. 38

religious schools should be doubled.<sup>577</sup> However, by the early 1990s after Zia's death the government had started showing concern over the large amount of *zakat* given to the religious schools, as it was felt that many of these institutions had the tendency to propagate sectarian differences resulting in sectarian discord.<sup>578</sup>

The CZC had from the inception of the *zakat* policy been keen on spending *zakat* money for primary school education, and scholarships for higher education,<sup>579</sup> which is also apparent from the proportions allocated for scholarships and stipends as shown in table 5.1. However, as graph 5.3 shows, for most years the religious schools received greater sums. Medicare stood in the second last place with social welfare faring the worst among the four institutions. It may perhaps be the case that the reason medicare received relatively less *zakat* money than religious schools and education was because as mentioned previously, the CZC retained a certain amount from the collected *zakat* funds to be disbursed to the national medical institutions.

Graph 5.3 above shows a marked increase in *zakat* disbursements for all institutions from 1984 till 1987. This is due to the formalisation of the allocation shares in 1984, which perhaps provided a renewed impetus to the *zakat* authorities to spend the funds. However, in 1988 there was a dramatic fall in the awards of *zakat* funds to institutions. It was particularly steep for religious schools and other educational purposes. Interestingly, this happens to coincide with Zia's death in a plane crash on 17 August 1988. It appears that the

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<sup>577</sup> Clark, "Pakistan's Zakat and Ushr System". pp. 153 & 237

<sup>578</sup> Finance Division & Central Zakat Administration, "Report of the Committee Appointed by the Prime Minister."p. 13

<sup>579</sup> markazi zakat council, "markazi zakat council ki kargardagi report." (1980-81) pp. 25-6. markazi zakat council, "markazi zakat council ki karkardagi report (1983-84)."pp. 51-55. markazi zakat council, "markazi zakat council ki aathvain salana kargardagi report." (1987-88) p. 37. Central Zakat Administration, "Zakat and Ushr System in Pakistan (1994)." p. 6

*zakat* system suffered a shock that year. Zia had taken an intimate interest in the working of the *zakat* system (reflected in the fact that high-level *zakat* personnel were chosen by him and were directly answerable to him, as seen in Chapter Three).

Another point of significance is that *zakat* disbursements to institutions were not made according to the dictates of the policy established by the CZC as laid out in table 5.1 above. Table 5.6 below presents the differences in the notional and actual *zakat* disbursements made to the institutions.

**Table 5.6**

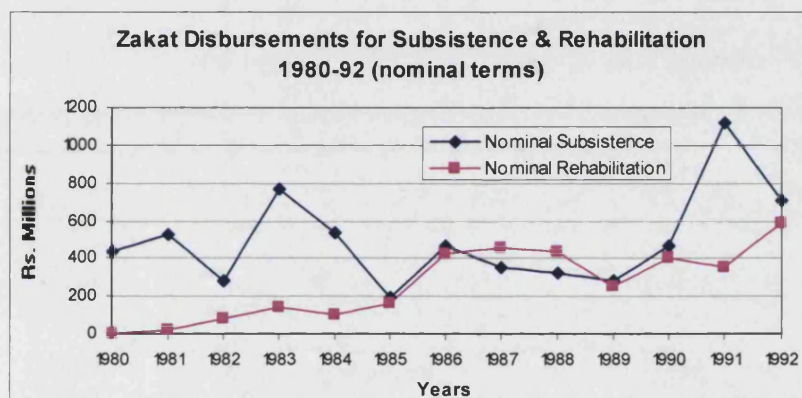
<b>Notional (based on the proportions set out in table 5.1) &amp; Actual Disbursements as % of Zakat Disbursements to Institutions</b>								
<b>Years</b>	<b>Notional Medicare Disbursement (%)</b>	<b>Actual Medicare Disbursement (%)</b>	<b>Notional Religious School Disbursement (%)</b>	<b>Actual Religious School Disbursement (%)</b>	<b>Notional Educational Institutions Disbursement (%)</b>	<b>Actual Educational Institutions Disbursement (%)</b>	<b>Notional Social Welfare Institutions Disbursement (%)</b>	<b>Actual Social Welfare Institutions Disbursement (%)</b>
<b>1984</b>	10% (out of 50%)	15	20% (out of 50%)	38	50% (out of 50%)	33	10% (out of 50%)	14
<b>1985</b>	10% (out of 50%)	10	20% (out of 50%)	42	50% (out of 50%)	39	10% (out of 50%)	9
<b>1986</b>	10% (out of 50%)	9	20% (out of 50%)	46	50% (out of 50%)	42	10% (out of 50%)	3
<b>1987</b>	10% (out of 50%)	13	20% (out of 50%)	39	50% (out of 50%)	44	10% (out of 50%)	5
<b>1988</b>	20% (out of 40%)	13	20% (out of 40%)	35	40% (out of 40%)	39	20% (out of 40%)	12
<b>1989</b>	20% (out of 40%)	22	20% (out of 40%)	51	40% (out of 40%)	20	20% (out of 40%)	7
<b>1990</b>	20% (out of 40%)	11	20% (out of 40%)	44	40% (out of 40%)	39	20% (out of 40%)	7
<b>1991</b>	20% (out of 40%)	18	20% (out of 40%)	39	40% (out of 40%)	35	20% (out of 40%)	8
<b>1992</b>	10% (out of 40%)	19	20% (out of 40%)	40	50% (out of 40%)	34	10% (out of 40%)	7

Source: Derived from tables 5.1 and 5.5.

What is clear from table 5.6 is that actual *zakat* disbursements to institutions were generally below the notional allocation, with the exception of religious schools, which generally received more funds than they were proportionally entitled to receive (as explained earlier in this section).

The following graph presents the *zakat* disbursements for rehabilitation and subsistence.

**Graph 5.4**



Source: Derived from table 5.5.

The above graph shows that for most of the years under scrutiny, the major portion of *zakat* money was spent on subsistence. As mentioned before, the CZA had felt that too little *zakat* was being disbursed on rehabilitation and thus proposed the sums should be increased. In April 1984, the CZC formalised the proportion of *zakat* disbursements to be given for rehabilitation and subsistence (see table 5.1).

In the light of this resolution it seems that not only did *zakat* disbursements for rehabilitation went up but that subsistence went down for 1985. In 1987-88 it appears that



the CZC's continuous attempts to boost disbursements on rehabilitation had finally been successful, but subsequently subsistence soon overtook rehabilitation once again.

The reason for the initial bias against rehabilitation was that the government perceived that a permanent rehabilitation programme at the grass-roots level involved a long-term commitment to the recipients, requiring monitoring and support from the LZCs while the recipients received training and began new careers.<sup>580</sup> Regarding commitment, Chapter Four has already indicated the less than satisfactory situation of the *zakat* councils and committees. The consequence was that even when the CZC made a concerted effort to spend *zakat* funds on rehabilitation in subsequent years, it could not maintain this effort for long and therefore *zakat* funds were being generally diverted to subsistence.<sup>581</sup> It was generally admitted by the government that in spite of the continuous flow of substantial funds for rehabilitation, the results were disappointing due to the lack of effective supervision and monitoring of the affairs of the lower *zakat* administrative tiers.<sup>582</sup> Additionally, most of the time, the recipients of *zakat* for rehabilitation would have had no solid idea about the nature and purpose of the scheme.<sup>583</sup> Another reason for this practice could perhaps be traced to the idea that direct help to the deserving and needy is important in *zakat*'s ideology, and perhaps that the effects of direct relief are immediate.

As with the *zakat* disbursements to institutions where disbursements were not made according to the dictates of the policy established by the CZC, *zakat* spending between

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<sup>580</sup> Clark, "Pakistan's Zakat and Ushr System", p. 353

<sup>581</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan (1991)." p. 3

<sup>582</sup> Ibid. p. 3

<sup>583</sup> Mohammad, "Evaluation of nizam-e-zakat and ushr in Pakistan", p. 102

subsistence and rehabilitation was also not spent according to the dictates of the policy as laid out in table 5.1. Table 5.7 below makes this point.

**Table 5.7**

<b>Notional (based on proportions set out in table 5.1) &amp; Actual Disbursements as % of Zakat Disbursements for Subsistence &amp; Rehabilitation</b>				
<b>Years</b>	<b>Notional Subsistence Disbursement (%)</b>	<b>Actual Subsistence Disbursement (%)</b>	<b>Notional Rehabilitation Disbursement (%)</b>	<b>Actual Rehabilitation Disbursement (%)</b>
1984	65% (out of 50%)	85	30% (out of 50%)	15
1985	65% (out of 50%)	54	30% (out of 50%)	46
1986	45% (out of 50%)	52	45% (out of 50%)	48
1987	45% (out of 50%)	44	45% (out of 50%)	56
1988	45% (out of 60%)	42	45% (out of 60%)	58
1989	45% (out of 60%)	53	45% (out of 60%)	47
1990	45% (out of 60%)	53	45% (out of 60%)	47
1991	45% (out of 60%)	76	45% (out of 60%)	24
1992	45% (out of 60%)	55	45% (out of 60%)	45

Source: Derived from tables 5.1 and 5.5.

The above table reveals that *zakat* money spent for subsistence was mostly more than its allocated percentage share compared to rehabilitation compared in percentage average terms. The reasons for this bias against rehabilitation have been recorded above.

The next question concerns the coverage of *zakat* at the national aggregate level, i.e. how many people were receiving *zakat* and in what proportions. However, before dealing with this question it is important to describe the manner in which *zakat* disbursements take place.

As mentioned in Chapter Four, the Local *Zakat* Committees are the most important actors in the disbursement process. It is the duty of the LZCs to identify the 'needy' and

‘deserving’ of *zakat* for subsistence, and to support the rehabilitation of recipients.<sup>584</sup> The credibility and confidence in the *zakat* system rests largely on the conduct and performance of the LZCs, as these are the backbone of the entire system because these committees are in direct contact with the people, with those who receive and also sometimes with those who give *zakat*.

For *zakat* disbursements directly to individuals, the committees identified the *mustahiqeen* according to priority and then verified their needs.<sup>585</sup> The LZCs had to maintain registers containing information on the *mustahiqeen* who ordinarily resided within its jurisdiction.<sup>586</sup> At first, the LZCs could disburse *zakat* in cash,<sup>587</sup> from the LZC operating at the nearest branch of the Commercial Bank or post offices, directly to the *mustahiq* for subsistence and rehabilitation.<sup>588</sup> The LZCs could also pay the *mustahiqeen* via cheques stating the heading of the disbursement and signed by the chairman of the committee and another member.<sup>589</sup> However, the tenth amendment in the *Zakat* Ordinance in June 1994 restricted the role of the Local *Zakat* Committee to the identification of the needy as *zakat* was to be disbursed through banks, post offices and other financial institutions.<sup>590</sup> This decision was taken because of delays to *zakat* disbursements due to complaints of malpractices.<sup>591</sup>

*Zakat* benefits to individuals through institutions occurred following a reference from the *mustahiq*'s respective LZC. The institutions sometimes received *zakat* not only from the

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<sup>584</sup> Central Zakat Administration, *The Zakat Manual*. p. 84

<sup>585</sup> markazi zakat council, "markazi zakat council ki kargardagi report." (1980-81) p. 19

<sup>586</sup> Central Zakat Administration, *The Zakat Manual*. p. 84

<sup>587</sup> Ibid. p. 147

<sup>588</sup> markazi zakat council, "markazi zakat council ki karkardagi report (1981-82)." p. 40

<sup>589</sup> Central Zakat Administration, *The Zakat Manual*. p. 137

<sup>590</sup> Nazir, *Zakat Law*. p. 169

<sup>591</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan (1994)." p. 7

Provincial *Zakat* Councils but some also received *zakat* from the LZCs in whose jurisdiction these were.<sup>592</sup>

Table 5.8 and 5.9 and graph 5.5 below present the number and percentage of beneficiaries at the national level for all the six headings of *zakat* disbursements.

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<sup>592</sup> Central Zakat Administration, *The Zakat Manual*. Register A p. 85 and LZ-24 p. 186. Also see Clark, "Pakistan's Zakat and Ushr System". p. 257

**Table 5.8**

<b>Number of Beneficiaries from Institutions (Medicare, Religious Schools, Education, Social Welfare) Subsistence &amp; Rehabilitation</b>							
<b>Years</b>	<b>Medicare</b>	<b>Religious Schools</b>	<b>Educational Institutions</b>	<b>Social Welfare Institutions</b>	<b>Subsistence</b>	<b>Rehabilitation</b>	<b>Total</b>
1980	10012	67201	59	46522	1289489	1931	1415214
1981	13846	57545	1210	31943	1287207	9214	1400965
1982	12242	86876	2476	7602	1175067	46753	1331016
1983	48859	38740	21108	13517	1215055	62983	1400262
1984	174459	96569	60580	30275	953016	15703	1330602
1985	153552	117924	59995	17627	509627	113091	971816
1986	126097	159147	64672	7863	856289	291261	1505329
1987	98705	152444	95234	7441	1262129	310577	1926530
1988	47432	62991	44747	9700	926101	177312	1268283
1989	112829	101448	28126	11950	671273	96348	1021974
1990	35111	106061	67919	43935	779003	204177	1236206
1991	40069	123947	56441	279097	1103745	107717	1711016
1992	244377	92010	29348	70052	1532612	205622	2174021

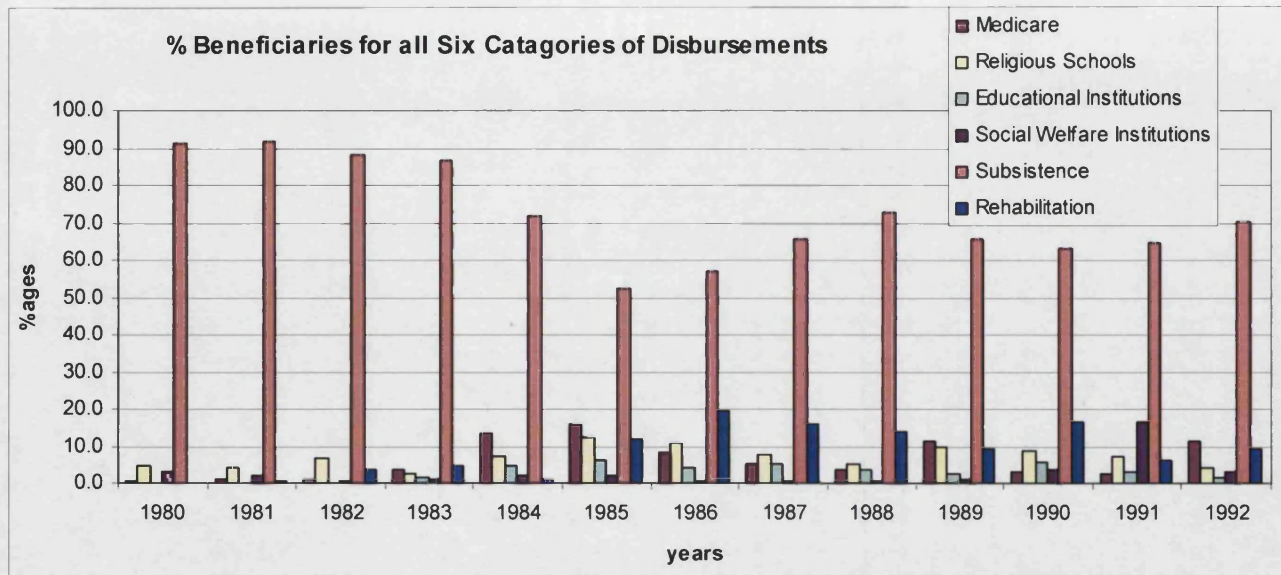
Source: Central *Zakat* Administration, 1991 *Zakat* and *Ushr* System in Pakistan, Ministry of Finance and Shirazi 1996 System of *Zakat* in Pakistan: An Appraisal. Islamabad, International Institute of Islamic Economics.

**Table 5.9**

<b>% Beneficiaries for Institutions (Medicare, Religious Schools, Education, Social Welfare), Subsistence &amp; Rehabilitation</b>							
<b>Years</b>	<b>% Medicare</b>	<b>% Religious Schools</b>	<b>% Educational Institutions</b>	<b>% Social Welfare Institutions</b>	<b>% Subsistence</b>	<b>% Rehabilitation</b>	<b>Total</b>
<b>1980</b>	0.7	4.7	0.0	3.3	91.1	0.1	100
<b>1981</b>	1.0	4.1	0.1	2.3	91.9	0.7	100
<b>1982</b>	0.9	6.5	0.2	0.6	88.3	3.5	100
<b>1983</b>	3.5	2.8	1.5	1.0	86.8	4.5	100
<b>1984</b>	13.1	7.3	4.6	2.3	71.6	1.2	100
<b>1985</b>	15.8	12.1	6.2	1.8	52.4	11.6	100
<b>1986</b>	8.4	10.6	4.3	0.5	56.9	19.3	100
<b>1987</b>	5.1	7.9	4.9	0.4	65.5	16.1	100
<b>1988</b>	3.7	5.0	3.5	0.8	73.0	14.0	100
<b>1989</b>	11.0	9.9	2.8	1.2	65.7	9.4	100
<b>1990</b>	2.8	8.6	5.5	3.6	63.0	16.5	100
<b>1991</b>	2.3	7.2	3.3	16.3	64.5	6.3	100
<b>1992</b>	11.2	4.2	1.3	3.2	70.5	9.5	100
<b>Average</b>	<b>6.0</b>	<b>6.8</b>	<b>2.8</b>	<b>3.1</b>	<b>72.5</b>	<b>8.8</b>	<b>100</b>

Source: Derived from table 5.8.

**Graph 5.5**



Source: Derived from table 5.9.

From the average given in table 5.9 and as the graph shows, it is apparent that *zakat* beneficiaries for subsistence were the highest. However, the numbers declined over the years which, was in accordance with the CZC policy of devoting fewer *zakat* resources to subsistence (as mentioned above). Well behind in numerical terms were rehabilitation recipients and the religious schools. According to Mohammad's survey, until 1988, only 5% of *mustahiqeen* received *zakat* for rehabilitation,<sup>593</sup> which is slightly lower than the percentage average of 7.9% for the same years according to the table above. Surprisingly, the beneficiaries for religious schools do not appear to be significantly numerous compared to those falling under the other headings, considering the high totals of *zakat* received by these institutions. However, their numbers do increase over the years. The beneficiaries for educational institutions seem to be faring badly considering the CZC emphasis on disbursing *zakat* for educational purposes.

Mohammad's survey reports that all four types of institutions receiving *zakat* complained about the difficulties of receiving *zakat* and the delays (sometimes of more than a year) in the case of medicare.<sup>594</sup> Such delays naturally made it difficult for the *zakat* to reach its beneficiaries and fulfil its objective and be true to its rhetoric. The CZC did not perform any assessment of the target groups for *zakat* payments, and thus lacked an official benchmark to assess the system's coverage. However, one can assess the coverage of the system and gauge *zakat* beneficiaries as a percentage of Pakistan's total population.

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<sup>593</sup> Mohammad, "Evaluation of nizam-e-zakat and ushr in Pakistan", p. 101

<sup>594</sup> Ibid.pp. 178-180

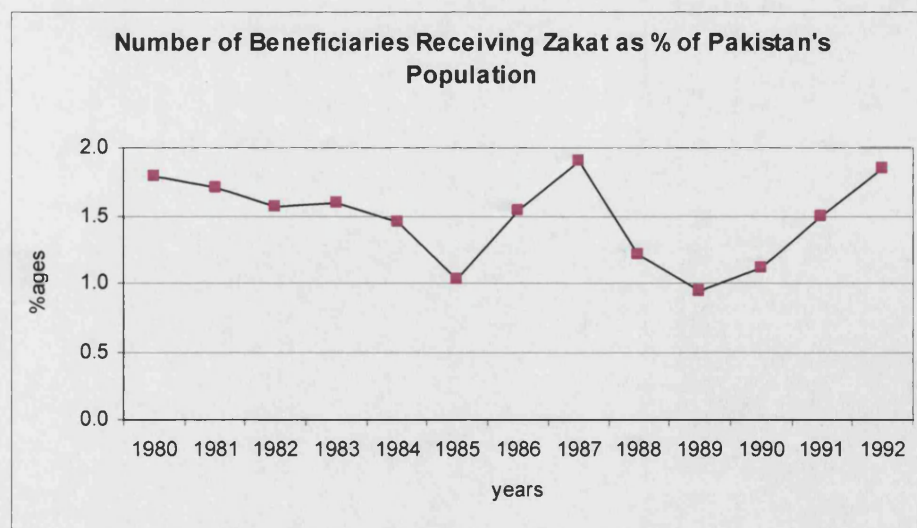


**Table 5.10**

Coverage of the Zakat System at the National Aggregate Level			
Years	Total Zakat Beneficiaries	Total Population Pakistan	Number of Beneficiaries Receiving Zakat as % of Pakistan's Population
1980	1415214	79297390	1.8
1981	1400965	82057790	1.7
1982	1331016	85016300	1.6
1983	1400262	88142090	1.6
1984	1330602	91390090	1.5
1985	971816	94719390	1.0
1986	1505329	98132690	1.5
1987	1926530	101616990	1.9
1988	1268283	105097990	1.2
1989	1021974	108478990	0.9
1990	1236206	111698000	1.1
1991	1711016	114711000	1.5
1992	2174021	117543000	1.8

Source: www.datastream.net, Central Zakat Administration 1991 Zakat and Ushr System in Pakistan, Ministry of Finance and Shirazi 1996 System of Zakat in Pakistan: An Appraisal and Author's own calculations.

**Graph 5.6**



Source: Derived from table 5.10.

The above table and graph reveal that the coverage of the *zakat* system was 1.5% on average, which seems rather unimpressive in a country where an average of around 23% of the population lived below the poverty line during the same period.<sup>595</sup> In addition to this, the above numbers could be overestimating the situation due to the problem of double counting: individuals receiving official *zakat* from one source would be counted twice if they were also receiving *zakat* from another official source. This would imply that the number of beneficiaries presented in table 5.8 could actually mean 'instances of benefits' received by an individual rather than 'number of beneficiaries'. Additionally, considering that not all those earmarked to receive *zakat* actually receive it<sup>596</sup> casts a murkier shade on those numbers.

There are many reasons for this scanty coverage. To start with, Pakistani law does not specify the parameters of the target group, i.e. the 'needy' and 'deserving'. This problem of definition raises questions about the eligibility of the *zakat* recipients; the vague and flexible criteria mean there are no clear yardsticks to determine need. It seems that during the planning of the *zakat* policy it was considered that the LZCs were the best placed to know who in their community would be most in need of *zakat*, and for this reason the eligibility criteria were not defined clearly.

Once an LZC identifies the *mustahiqeen* and records their need, it prioritises among them at a formal meeting.<sup>597</sup> It has been found that the LZCs vary in the way they understand eligibility, and that eligibility is relative to each village and depends upon what is

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<sup>595</sup> Kemal, "Poverty in Pakistan."p. 37

<sup>596</sup> Clark, "Pakistan's Zakat and Ushr System".p. 299. N. Khan, "A Presentation on System of Zakat in Pakistan" (paper presented at the International Training Seminar on Zakah Management, Islamabad, May 20-23 2002),p. 5.

<sup>597</sup> Clark, "Pakistan's Zakat and Ushr System". pp. 152 -248

customary in each village. Persons considered eligible in one village may not be considered eligible in another. Most of the time recipients are determined by LZCs members who know the situation of the people in their area or obtain information from home visits. Officials have acknowledged there are problems in making appropriate identification of 'needy' and 'deserving' beneficiaries, as there have been complaints against the *zakat* system over the years relating to the inclusion of ineligible people.<sup>598</sup> This gives the LZCs broad discretionary powers. It seems that a person is eligible to receive *zakat* if the LZCs say that he is, and the only way to prove his/her ineligibility is if he/she does not fall under the headings specified by the *Shariah*. On many occasions wealthy widows have been known to receive *zakat*, just because they are widows and fall under the heading of *zakat* recipients according to the *Shariah*. Additionally, the LZCs have also been known to include divorced and deserted women in this category, as the law is silent regarding these categories. Such variability in the eligibility criteria introduces the possibility of arbitrary and prejudiced decisions or even of the abuse of power by the LZCs. The problem of incorrect targeting is still prevalent in the system.<sup>599</sup>

Table 5.11 and graph 5.7 below show per capita *zakat* received.

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<sup>598</sup> Central Zakat Administration, "Zakat and Ushr System in Pakistan (1994)." p. 7

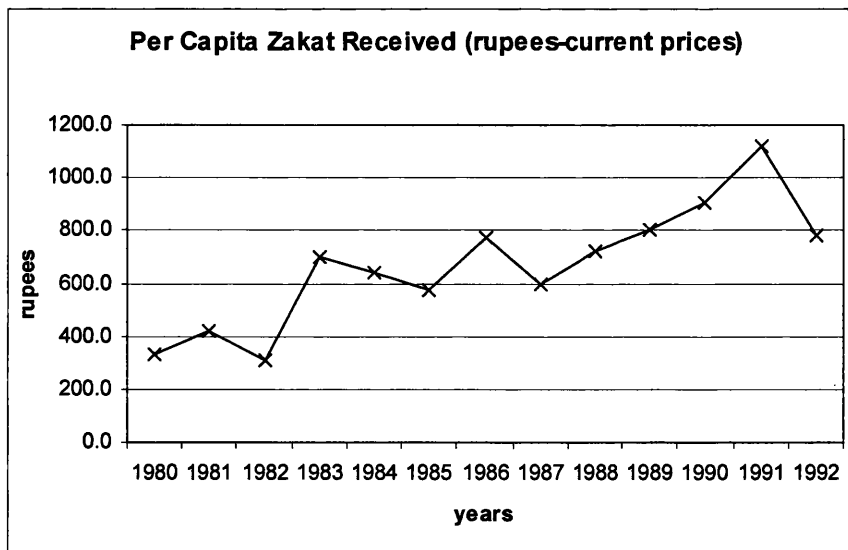
<sup>599</sup> N. Khan, "Presentation on System of Zakat in Pakistan".p. 5

**Table 5.11**

Per Capita Zakat Received			
Years	Total Zakat Received	Total Zakat Beneficiaries	Per Beneficiary Zakat Received (rupees-current prices)
1980	464230000	1415214	328.0
1981	585490000	1400965	417.9
1982	408440000	1331016	306.9
1983	982920000	1400262	702.0
1984	849840000	1330602	638.7
1985	557219000	971816	573.4
1986	1163630000	1505329	773.0
1987	1143010000	1926530	593.3
1988	911870000	1268283	719.0
1989	822640000	1021974	805.0
1990	1117480000	1236206	904.0
1991	1909070000	1711016	1115.8
1992	1693390000	2174021	778.9

Source: Central Zakat Administration, 1994, Zakat and Ushr System in Pakistan, Ministry of Finance, derived from table 5.10 and Author's own calculations.

**Graph 5.7**



Source: Derived from table 5.11.

The above table and graph show that the average per capita *zakat* disbursed was Rs.665 per year in current prices. This number does not indicate anything about its adequacy for

sustenance. One way of assessing this would be to compare the average annual disbursement with the annual poverty line for the same years. The following table 5.12 presents a year-wise picture of the adequacy of *zakat* disbursed at the national aggregate level. As stated in Chapter Four, the 1984 poverty line has been deflated using the CPI (Consumer Price Index) for 1984 prices.

**Table 5.12**

<b>Adequacy of Zakat Disbursement</b>			
<b>Years</b>	<b>Per Capita Zakat Received (rupees current prices)</b>	<b>Annual Poverty Line (1984 prices)</b>	<b>Per Capita Zakat Received % of Annual Poverty Line</b>
1980	328.0	1921.0	17.1
1981	417.9	2148.6	19.5
1982	306.9	2275.2	13.5
1983	702.0	2420.2	29.0
1984	638.7	2568.0	24.9
1985	573.4	2712.1	21.1
1986	773.0	2806.6	27.5
1987	593.3	2938.8	20.2
1988	719.0	3197.6	22.5
1989	805.0	3449.1	23.3
1990	904.0	3761.1	24.0
1991	1115.8	4195.3	26.6
1992	778.9	4604.6	16.9

Source: [www.datastream.net](http://www.datastream.net), Author and derived from table 5.11.

The table shows that apart from 1983, 1986 and 1991, the annual *zakat* disbursement did not manage to reach even a quarter of the poverty line, which is sufficient to provide a person with only the basic amount of calories.

When *zakat* policy was introduced the maximum benefit was set at Rs.40 per month due to the uncertainty regarding not only the collection of *zakat* but also the number of beneficiaries. However, following an inspection tour, in 1983 the Deputy Administrator

General advised the CZC that the *zakat* disbursed was inadequate. Therefore in 1984 the amount given was increased to a minimum of Rs.100 per month.<sup>600</sup> The increase is reflected in the second column of the above table. However, it also shows that the increase was still not large enough, bringing the payment up to just 29% of the poverty line. In the following year it fell to 21%, which suggests that not only the adequacy of the grants deteriorated but also that the revised rates of *zakat* disbursements were not kept up.

The inadequacy of the disbursements is just one aspect of the shortcomings of the *zakat* policy, as the frequency of the meagre awards was also irregular. The LZCs determine the frequency of *zakat* grants as well. There was no single pattern of disbursement as some LZCs disbursed *zakat* money monthly, some every quarter and some even once in nine months. The rest disbursed money somewhere in between these extremes or whenever they received an instalment from the PZC.<sup>601</sup> Mohammad observed that until 1988 there was much irregularity rather than a set pattern of disbursement frequency.<sup>602</sup> The erratic patterns of disbursement continued till the end of the period under review.<sup>603</sup>

This section has thus far revealed that *zakat* transfers from the CZA were unimpressive for the entire period analysed, lingering around 0.2% of the GDP on average. *Zakat* collections were always higher than the disbursements due to the lack of financial and budgetary planning and a failure to plan for targets. Consequently, the *zakat* account with the State Bank of Pakistan held huge cash balances. The tardiness in *zakat* money transfers ran throughout the system, as the PZFs and the LZCs were also slack in this regard.

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<sup>600</sup> Clark, "Pakistan's Zakat and Ushr System". pp. 249-250

<sup>601</sup> Ibid. p. 249

<sup>602</sup> Mohammad, "Evaluation of nizam-e-zakat and ushr in Pakistan", p. 97

<sup>603</sup> N. Khan, "Presentation on System of Zakat in Pakistan".pp. 8 & 12

Additionally, transfers did not take place according to set guidelines and even when guidelines were imposed these were never followed. This has been shown through the disbursement patterns between institutions and between subsistence and rehabilitation. Of the institutions it was the religious schools that received the most *zakat*. Furthermore, the rehabilitation that is supposed to remedy the long-term economic dependence of the individual was sacrificed in favour of handouts for subsistence. This was due to the lack of long-term commitment, monitoring and support on the part of the *zakat* management as a whole.

Due to the vague eligibility criteria the number of beneficiaries was not only low but the disbursements were inadequate and failed to reach even 22% of the poverty line. The lack of clarity regarding the *zakat's* eligibility criteria and the vagueness of the terms 'needy' and 'deserving' augmented the power of the LZCs whose duty it was to determine entitlement, which led in many instances to malpractices within the LZCs. There existed not only an irregular pattern of *zakat* disbursements to the individual, but delays in the disbursement of *zakat* to individuals persisted over time.

The state of affairs does not seem very effective. However, the above analyses have been undertaken using aggregate data which does not offer the exact impact of the *zakat* regarding who actually received and how much i.e its effects on households. Thus there is much to be assessed with regards to the coverage, adequacy and the targeting of the system using micro-level household data. The following analysis deals with these issues at the household level and tries to answer the questions of who received *zakat*, by how much did *zakat* augment the income of the recipient. In the process this section gives some idea of

whether *zakat* was true to its official and religious rhetoric of creating welfare and prosperity in society and looking after its indigent and destitute.

### **5.3 Micro-Analyses of *Zakat* Beneficiaries**

For analyses of this section the micro-level data come from the same source i.e. the Household Integrated Economic Survey (HIES) as used in Chapter Four, and will be used to conduct an analysis of *zakat* received by the beneficiaries as reported for the years 1985-86, 1986-87, 1987-88, 1990-91, 1992-93 and 1993-94.

Before embarking upon the micro-level analyses of *zakat* disbursements, it is important to recall the differences in the *zakat* questionnaires for the 1980s and the 1990s however, from the perspective of *zakat* received. In the 1990s questionnaire, *zakat* received was recorded under the entry code 50021, which included *zakat* and *ushr* only, whereas for the 1980s the variable of *zakat* received was recorded under the codes 6206 (cash) and 6303 (kind) and included '*zakat*, gifts and assistance, *ushr*, *nazrana* (charity), and philanthropy'. The definition of *zakat* in the 1990s questionnaire is therefore narrow and more specific than in the 1980s questionnaire. There is another difference in the questionnaires, (also mentioned in Chapter Four, though regarding *zakat* given). In the 1990s there is an additional entry (code 50061) regarding 'gifts or assistance/benefits such as educational grants, alimony, trust funds or other grants, inheritance, lottery winnings (in cash), etc.', which does not appear in the 1980s questionnaire. The consequence of this could be that some of the gifts and assistance recorded under codes 6206 and 6303 in the 1980s might have been



subsequently recorded under code 50061 in the 1990s.<sup>604</sup> This again implies that the definition of *zakat* is narrower in the 1990s.

This creates a potential problem of comparability of *zakat* received in the 1980s and the 1990s. Therefore in the analyses that follow the results of the two decades will be presented separately.

Before beginning the analysis, it would be helpful to present the income threshold for the 11 sub-groups for the six years under consideration in real terms as presented previously in Chapter Four. Table 5.13 provides these thresholds.

**Table 5.13**

<b>Inflation Adjusted Monthly Adult Equivalised Income Brackets (rupees)</b>					
<b>Years</b>					
<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>Income Brackets</b>					
<b>200</b>	<b>206</b>	<b>215</b>	<b>274</b>	<b>341</b>	<b>370</b>
<b>400</b>	<b>412</b>	<b>430</b>	<b>548</b>	<b>682</b>	<b>739</b>
<b>600</b>	<b>618</b>	<b>645</b>	<b>823</b>	<b>1023</b>	<b>1109</b>
<b>800</b>	<b>824</b>	<b>861</b>	<b>1097</b>	<b>1364</b>	<b>1479</b>
<b>1000</b>	<b>1030</b>	<b>1076</b>	<b>1371</b>	<b>1705</b>	<b>1848</b>
<b>1200</b>	<b>1236</b>	<b>1291</b>	<b>1645</b>	<b>2045</b>	<b>2218</b>
<b>1400</b>	<b>1442</b>	<b>1506</b>	<b>1920</b>	<b>2386</b>	<b>2588</b>
<b>1600</b>	<b>1648</b>	<b>1721</b>	<b>2194</b>	<b>2727</b>	<b>2958</b>
<b>1800</b>	<b>1855</b>	<b>1936</b>	<b>2468</b>	<b>3068</b>	<b>3327</b>
<b>2000</b>	<b>2061</b>	<b>2152</b>	<b>2742</b>	<b>3409</b>	<b>3697</b>

Source: Author's own calculations.

The above income thresholds yield the following adult equivalised household income distribution pattern for the 1980s and 1990s presented in table 5.14 and graph 5.8. This

<sup>604</sup> Federal Bureau of Statistics, "The Questionnaire Household Income and Expenditure Survey 1987-88," p. 566. Federal Bureau of Statistics, "Form HIES-1 3/90 Household Integrated Economic Survey," p. 33

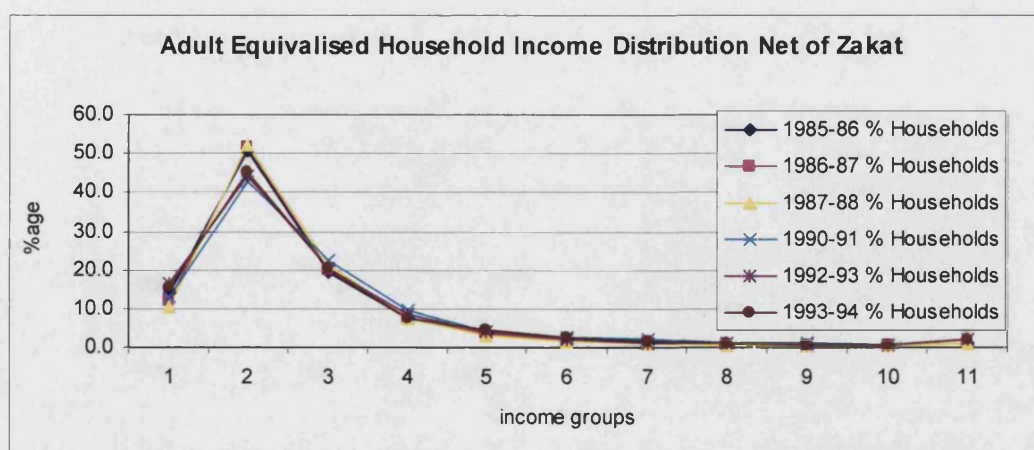
income distribution is slightly different from the distribution shown in Chapter Four in table 4.10, because the following table displays income distribution net of *zakat*. All subsequent calculations will be based on this income distribution.

**Table 5.14**

Adult Equivalised Household Income Distribution net of Zakat						
	1985-86	1986-87	1987-88	1990-91	1992-93	1993-94
AE Income Groups	% Households	% Households	% Households	% Households	% Households	% Households
1	13.9	11.9	10.6	13.1	16.3	15.2
2	50.6	51.7	51.9	42.7	44.3	44.9
3	19.6	20.0	21.4	22.3	20.3	20.2
4	7.3	7.3	7.5	9.2	8.3	7.5
5	3.2	3.3	3.2	4.1	3.8	4.3
6	1.8	1.7	1.7	2.4	2.0	2.3
7	1.1	1.3	1.0	1.8	1.2	1.5
8	0.6	0.7	0.7	1.0	0.8	0.9
9	0.4	0.5	0.4	0.9	0.5	0.6
10	0.3	0.4	0.3	0.5	0.4	0.5
11	1.1	1.1	1.2	1.9	2.0	2.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Based on the HIESs and Author's own calculations.

**Graph 5.8**



Source: Derived from table 5.14.

It will be beneficial to repeat here that for all the six years of analysis the first income group falls below the poverty line, whereas the second income group only partially falls under the poverty line (see table 4.11a). This reminder should help to orientate the analysis in terms of who received *zakat*.

Using the income brackets and income distribution presented in table 5.13 and 5.14 above, the analysis begins by looking at the pattern of *zakat* targeting. Tables 5.15a and 5.15b and graphs 5.9a, 5.9b and 5.9c below show the number and percentage of households receiving *zakat* in each income group for the 1980s according to the HIESs.

**Table 5.15a**

<b>Number of Households Receiving Zakat per Income Group</b>			
<b>Income Groups</b>	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>1</b>	11	269	199
<b>2</b>	117	542	479
<b>3</b>	62	221	207
<b>4</b>	46	80	75
<b>5</b>	28	33	37
<b>6</b>	13	27	16
<b>7</b>	10	14	13
<b>8</b>	4	13	9
<b>9</b>	5	11	5
<b>10</b>	1	7	3
<b>11</b>	5	14	11
<b>Total</b>	<b>302</b>	<b>1231</b>	<b>1054</b>

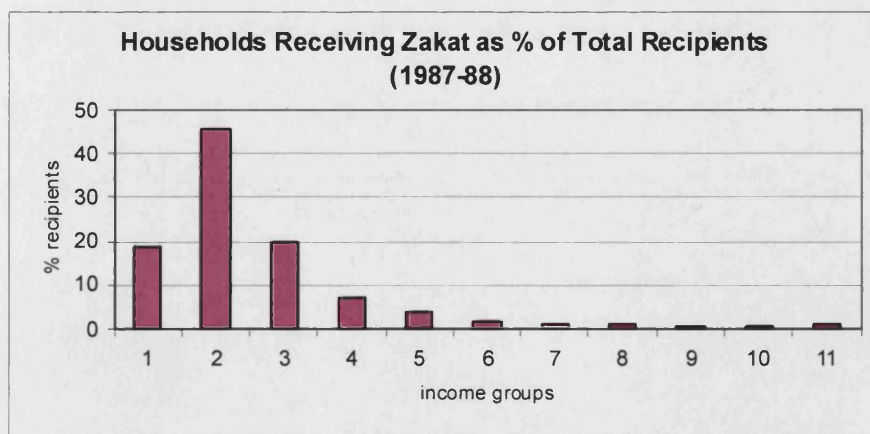
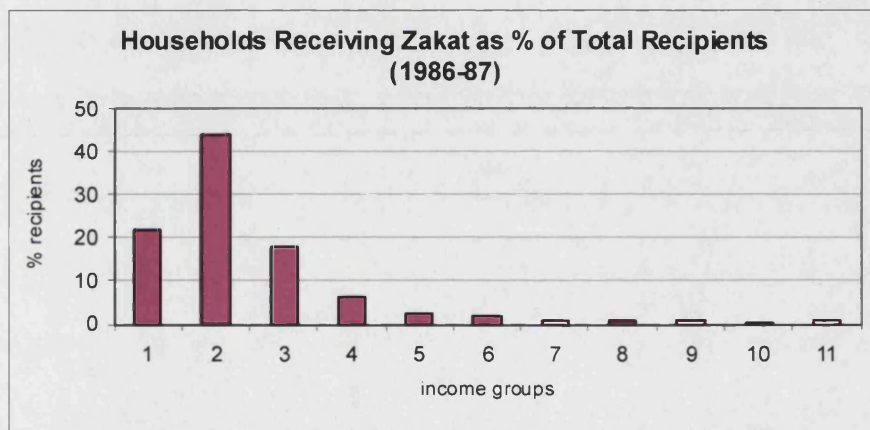
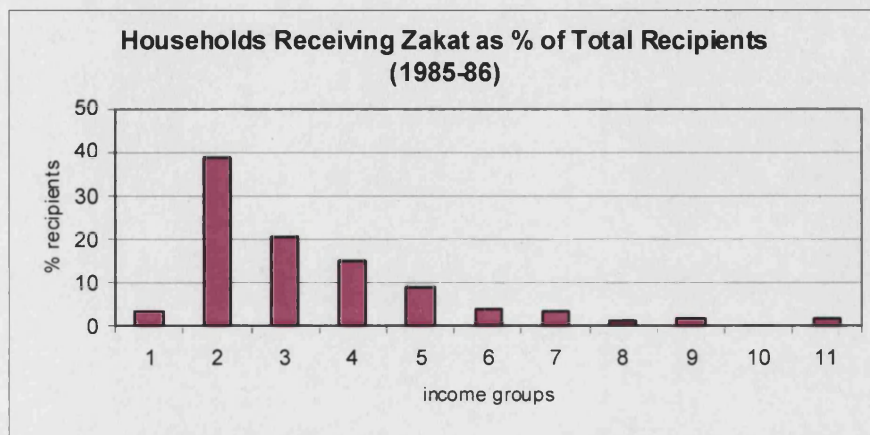
Source: Based on the HIESs and Author's own calculations.

**Table 5.15b**

<b>Households Receiving Zakat per income group as % of Total Recipients</b>			
	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>Income Groups</b>	<b>% Households Receiving Zakat</b>	<b>% Households Receiving Zakat</b>	<b>% Households Receiving Zakat</b>
<b>1</b>	3.6	21.9	18.9
<b>2</b>	38.7	44.0	45.4
<b>3</b>	20.5	18.0	19.6
<b>4</b>	15.2	6.5	7.1
<b>5</b>	9.3	2.7	3.5
<b>6</b>	4.3	2.2	1.5
<b>7</b>	3.3	1.1	1.2
<b>8</b>	1.3	1.1	0.9
<b>9</b>	1.7	0.9	0.5
<b>10</b>	0.3	0.6	0.3
<b>11</b>	1.7	1.1	1.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Based on the HIESs and Author's own calculations.

Graphs 5.9a, b & c



Source: Derived from tables 5.15b.

According to this distribution of the *zakat* recipients, most are in the three lowest income groups (77% on average) with almost 63% in 1985-86 and 84% in 1986-87 and 1987-88. Using the adult equivalised poverty lines for the 1980s, i.e. Rs.226, Rs.233.8 and Rs.244.9 respectively (see table 4.11a in Chapter Four for income groups falling below the poverty lines), it is estimated that for 1985-86 around 8% of households in receipt of *zakat* payments had adult equivalised incomes (net of *zakat* receipts) below the poverty line; for 1986-87 this proportion rose to almost 30%, and for the year 1987-88 it was almost 26%.<sup>605</sup> This shows that although the majority of households receiving *zakat* payments were mostly in the three lowest income groups, LZCs do not always appear to have awarded the *zakat* payments to households with equivalised incomes below the poverty lines. For 1987-88 Jehle reports that when compared to the poverty line, the median incomes of *zakat* receivers show that over half of those who receive *zakat* were not among the poorest members of society.<sup>606</sup> Jehle's statement does not seem to contradict the pattern of *zakat* received according to the table above.

For the 1990s, tables 5.16a and 5.16b and graphs 5.10a, 5.10b and 5.10c below display the number and percentage of households receiving *zakat* per income group according to the HIESs.

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<sup>605</sup> For the usage of the poverty line, see Chapter Four, table 4.11a & b.

<sup>606</sup> Jehle, "Zakat and Inequality." p. 208

**Table 5.16a**

<b>Number of Households Receiving Zakat per Income Group</b>			
<b>Income Groups</b>	<b>1990-91</b>	<b>1992-94</b>	<b>1993-95</b>
<b>1</b>	64	148	111
<b>2</b>	86	155	119
<b>3</b>	14	47	30
<b>4</b>	11	11	6
<b>5</b>	2	6	9
<b>6</b>	1	2	4
<b>7</b>	1	-	2
<b>8</b>	-	3	3
<b>9</b>	-	1	-
<b>10</b>	-	-	1
<b>11</b>	-	2	-
<b>Total</b>	<b>179</b>	<b>375</b>	<b>285</b>

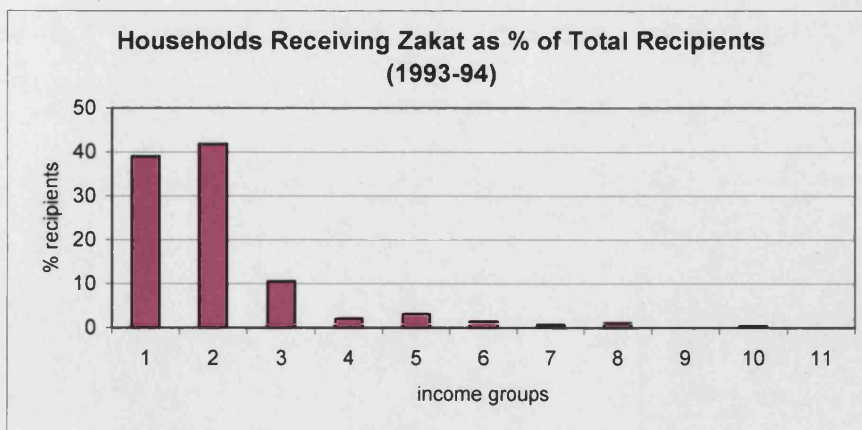
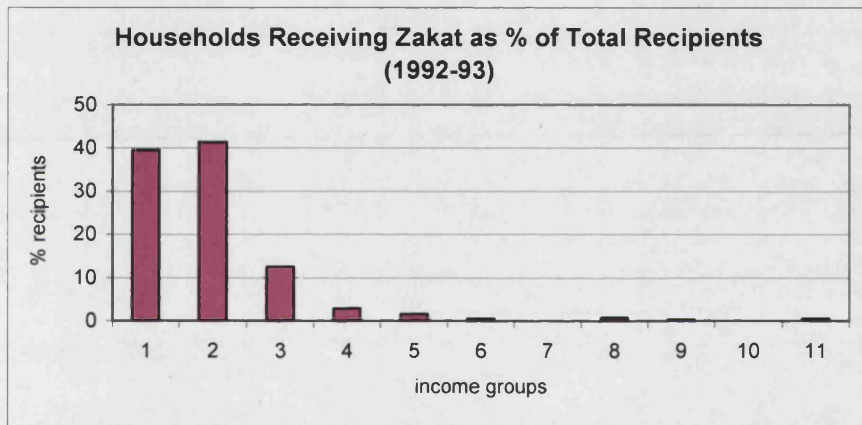
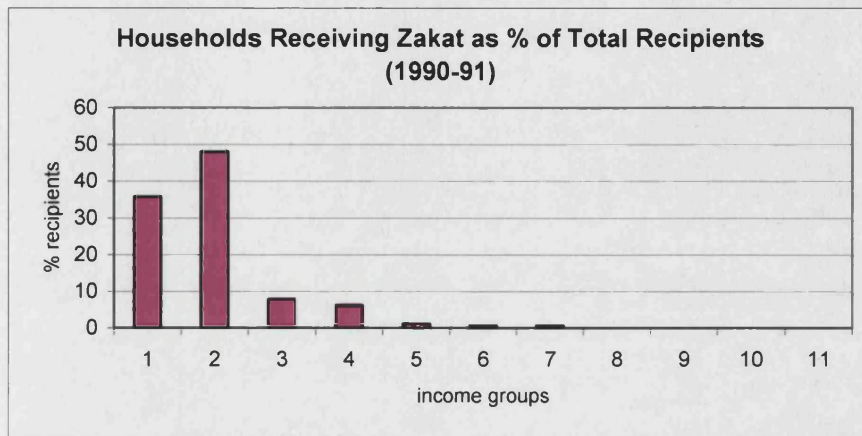
Source: Based on the HIESs and Author's own calculations.

**Table 5.16b**

<b>Households Receiving Zakat per income group as % of Total Recipients</b>			
	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>Income Groups</b>	<b>% Households Receiving Zakat</b>	<b>% Households Receiving Zakat</b>	<b>% Households Receiving Zakat</b>
<b>1</b>	35.8	39.5	38.9
<b>2</b>	48.0	41.3	41.8
<b>3</b>	7.8	12.5	10.5
<b>4</b>	6.1	2.9	2.1
<b>5</b>	1.1	1.6	3.2
<b>6</b>	0.6	0.5	1.4
<b>7</b>	0.6	-	0.7
<b>8</b>	-	0.8	1.1
<b>9</b>	-	0.3	-
<b>10</b>	-	-	0.4
<b>11</b>	-	0.5	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Based on the HIESs and Author's own calculations.

**Graphs 5.10a, b & c**



Source: Derived from tables 5.16b.



Table 5.16b shows that for all the three years of the 1990s, on average 92% of the households receiving *zakat* belonged to the lowest three income brackets (with 91% in 1990-91, 93% in 1992-93 and 91% in 1993-94). *Zakat* targeting for the 1990s appears to have improved relative to the 1980s. The proportion of households in receipt of *zakat* with equivalised incomes below the relevant annual poverty line was 48.6% for 1990-91 (poverty line Rs.313.4), 48.5% for 1992-93 (poverty line Rs.383.7) and 47.3% for 1993-94 (poverty line Rs.421.9) (see table 4.11a for comparison of income brackets with the poverty lines). As in the 1980s, although the *zakat* payments were concentrated on the lowest income groups, these were not always the poorest group i.e. falling below the poverty line.

On the whole, however, for both the 1980s and the 1990s *zakat* seemed to be well targeted, with most of the receivers falling in the lowest income groups within the income distribution. In particular in the 1990s the very high concentration of recipients in the very low income groups is very significant, considering that in the 1990s questionnaire, as already noted, the variable of *zakat* received refers exclusively to *zakat*. Shirazi's study of *zakat* in Pakistan in 1990-91, conducted on a household income basis, also shows that most of the *zakat* recipients belonged to the lowest income deciles.<sup>607</sup>

However, tables 5.15a and 5.15b and 5.16a and 5.16b with their corresponding graphs suggest that there was some incorrect targeting in the two decades. In particular in 1985-86, the percentage of *zakat* recipients falling into the five highest income groups was above 8%. This percentage, however, fell in the following years to below 4% in 1987-88, and

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<sup>607</sup> Shirazi, *System of Zakat in Pakistan*. p. 71

below 3% in the 1990s. This concurs with Mohammad's study, which also suggests some poor targeting of *zakat* disbursements.<sup>608</sup>

The misallocation of *zakat* funds sheds light on the state's commitment to the *zakat* policy in terms of standardisation of the provision of services by a reputable bureaucracy. As suggested in Chapter Two, standardisation in the provision of a policy is also reflective of the state's fairness and commitment to the policy.

Nonetheless, the above results seem to suggest that the government was to some extent successful in establishing consistency with its objectives of targeting the poor via *zakat*.

In countries such as Pakistan, where poverty is widespread, any policy geared to reduce poverty not only has to target the right groups but also to provide poverty relief to a high percentage of the poor. Therefore, the next question that comes to mind is the proportion of *zakat* receivers in each income bracket as a percentage of the total population. The programme coverage is one of the key criteria for the evaluation of safety net programmes such as *zakat*.<sup>609</sup>

However, a note of caution needs to be inserted here. As seen in table 5.16a, the number of recipients in the highest income groups for the 1990s is six or less. This implies that the averages and median values based on such low counts will not be representative of the

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<sup>608</sup> Mohammad, "Evaluation of nizam-e-zakat and ushr in Pakistan", p. 26

<sup>609</sup> Social Policy and Development Centre, *Social Development in Pakistan: annual review* (Karachi: Social Policy and Development Centre; Oxford: Oxford University Press, 1999-2000). pp. 92-115. Social Policy Development Centre, "Social Development in Pakistan: annual Review", 1999, Social Policy and Development Centre, Karachi p. 105

situation. Therefore, for the 1990s the following analysis will not give a visual presentation of income groups with less than six recipient households.

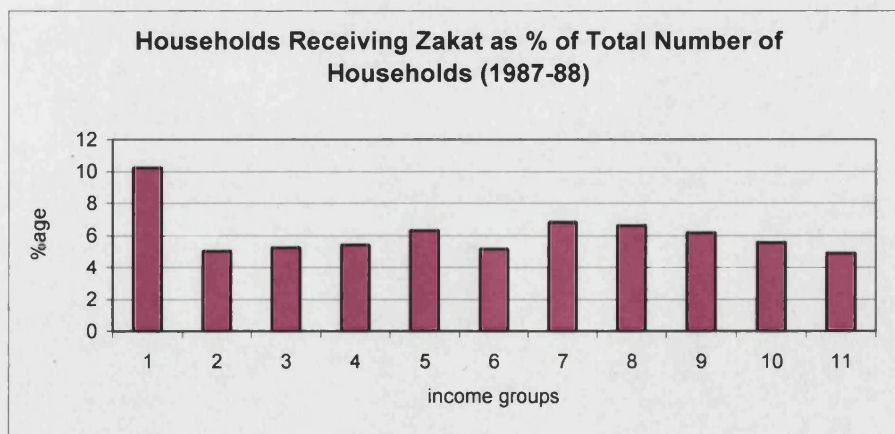
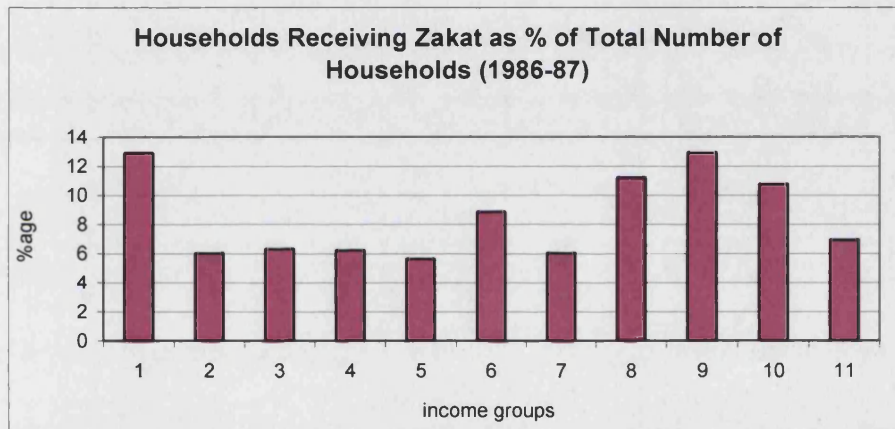
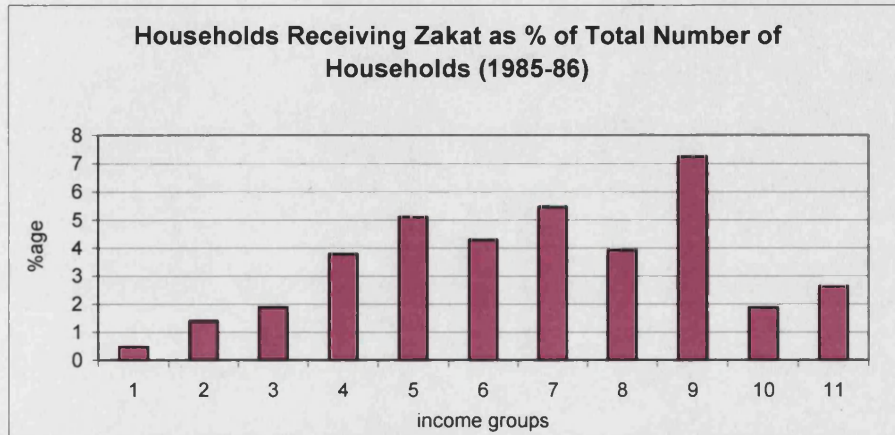
The following table and graphs present *zakat* receivers as a percentage of the total sample (givers, receivers and non-participants) by income groups. According to the HIESs for 1985-86, table 5.17 and graphs 5.11a, 5.11b and 5.11c below show that on average only 1.3% of households in the lowest three income groups were actually benefiting from *zakat*, with only 0.5% in the poorest group. The situation did improve over the following two years: in 1986-87, an average 8.4% of the first three income groups received the *zakat*, falling to 6.8% in 1987-88. There is a significant rise in the percentage of receivers in the lowest income group between 1985-86 and the two following years.

**Table 5.17**

<b>Households Receiving Zakat as Percentage of Total Number of Households (receivers, givers &amp; non-participants)</b>			
<b>Income Groups</b>	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>1</b>	0.5	12.9	10.2
<b>2</b>	1.4	6.0	5.0
<b>3</b>	1.9	6.3	5.2
<b>4</b>	3.8	6.2	5.4
<b>5</b>	5.1	5.6	6.3
<b>6</b>	4.3	8.9	5.2
<b>7</b>	5.5	6.0	6.8
<b>8</b>	3.9	11.2	6.6
<b>9</b>	7.2	12.9	6.2
<b>10</b>	1.9	10.8	5.6
<b>11</b>	2.6	6.9	4.9
<b>Total</b>	<b>1.8</b>	<b>7.1</b>	<b>5.7</b>

Source: Based on the HIESs and Author's own calculations.

Graphs 5.11a, b & c



Source: Derived from table 5.17.

As a percentage of the total population, *zakat* recipients rose from only 1.8% in 1985-86, to 7.1% in 1986-87 and 5.7% in 1987-88. The percentage for 1987-88 is almost consistent with Jehle's findings that about 6% of the population were benefiting from *zakat*.<sup>610</sup> Note that the higher income groups in the table above tend to show a larger proportion of recipients. This is not because there are more recipients in these groups, as has been shown in the distribution charts in tables 5.15a and 5.15b, but because these groups contain few households. For the 1980s on the whole the coverage seems unimpressive especially regarding the percentage of the recipients in the lowest income groups considering that this group falls below the poverty line.

The percentages of *zakat* recipients shown in the above table suggest a similar scenario as at the national level presented in table 5.10 in the previous section, i.e. the *zakat* system's coverage was rather thin. However, the numbers at the two levels do not reconcile: the percentages based on the HIES, as shown in the above table for 1986-87 and 1987-88, are notably higher than the national aggregate numbers presented in table 5.10. There are many reasons for the differences in these numbers: the first one is that calculations in table 5.17 include those who receive *zakat* at the interpersonal level, and these are missing in the national aggregate numbers; secondly, the HIES *zakat* definition for the 1980s is broader, whereas at the national aggregate level only *zakat* disbursements are recorded. Additionally, as mentioned in the Introduction, the *ushr* receipts are not calculated at the national level whereas these are part of the HIES surveys.

A very similar picture emerges for the 1990s, i.e. the recipients represent only a small proportion of the population in all the income groups (see table 5.18 and graphs 5.12a,

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<sup>610</sup> Jehle, "Zakat and Inequality." p. 207

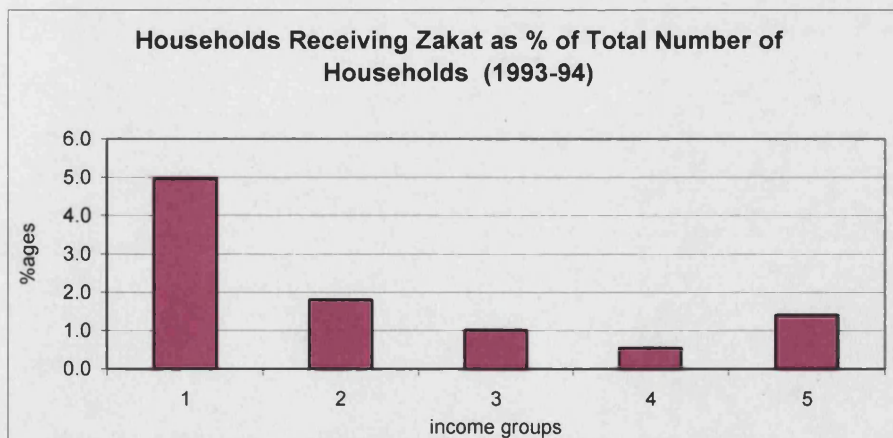
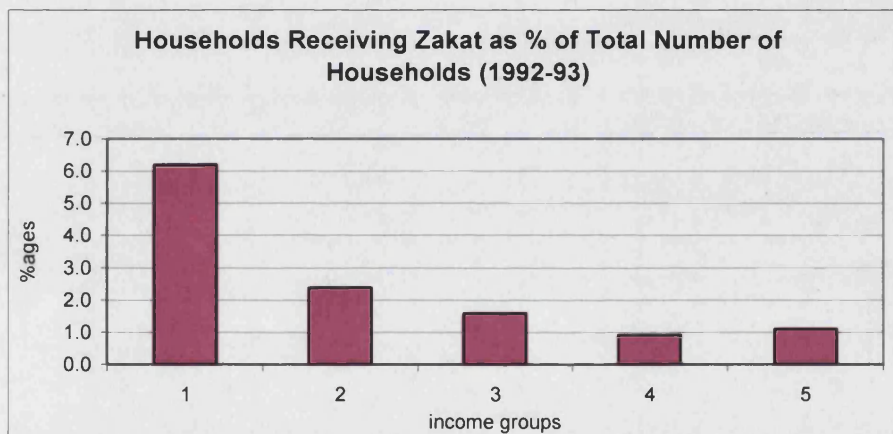
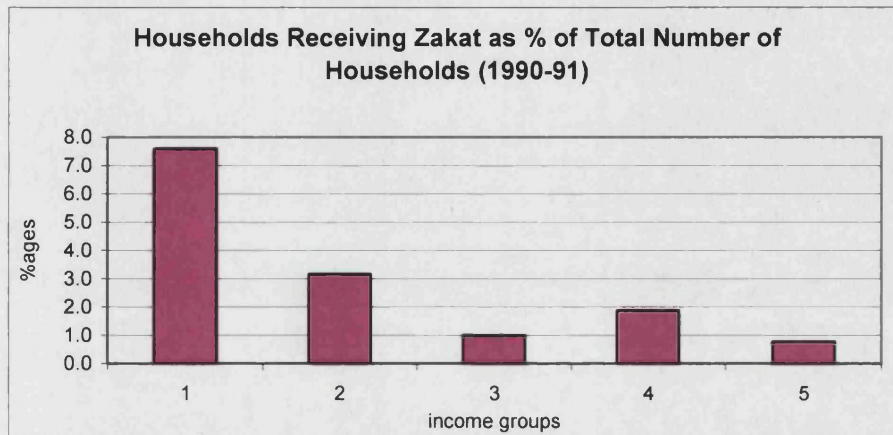
5.12b and 5.12c below). For example, in 1990-91 it was only 2.8%, 2.6% in 1992-93 and 1.9% in 1993-94. Although, most recipients were in the lowest income groups for all three years of the 1990s, the percentage of recipients for the lowest income group is still low considering this group falls below poverty line.

**Table 5.18**

<b>Households Receiving Zakat as Percentage of Total Number of Households (receivers, givers &amp; non-participants)</b>			
<b>Income Groups</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>1</b>	7.6	6.2	5.0
<b>2</b>	3.2	2.4	1.8
<b>3</b>	1.0	1.6	1.0
<b>4</b>	1.9	0.9	0.5
<b>5</b>	0.8	1.1	1.4
<b>6</b>	-	-	-
<b>7</b>	-	-	-
<b>8</b>	-	-	-
<b>9</b>	-	-	-
<b>10</b>	-	-	-
<b>11</b>	-	-	-
<b>Total</b>	<b>2.8</b>	<b>2.6</b>	<b>1.9</b>

Source: Based on the HIESs and Author's own calculations.

Graphs 5.12a, b & c



Source: Derived from table 5.18.

It is worth mentioning that reconciliation of the data presented in table 5.18, based on the HIES for the 1990s, with the national level presented in table 5.10 is possible for only two years due to the lack of aggregate data at the national level. Nonetheless for these two years it can be asserted that both sets of numbers are much closer than in the 1980s. The reason for the relative proximity of these numbers is that for the 1990s the HIES *zakat* definition is similar to the national aggregate data definition of *zakat* disbursements. However, there still appears some difference. This again probably has roots in the fact that the calculations based on the HIES data include interpersonal *zakat* received, unlike the national aggregate data. Moreover, as with the 1980s the national aggregate data does not include *ushr*.

From the assessment of the *zakat* received so far, one can assert that the targeting of the *zakat* programme might be impressive but it seems that for the entire period under consideration, the coverage was very low. This confirms Shirazi's findings that the coverage in 1990-91 was only 2.7% of the total households.<sup>611</sup>

Even if the coverage of the programme was inadequate it is important to know the size of *zakat* received by the recipients, as this will indicate whether the *zakat* disbursements are likely to have met the needs of the recipients. Table 5.19 and graphs 5.13a, 5.13b and 5.13c below report the value of the average *zakat* received (in rupees current price) per adult equivalent in each income group.

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<sup>611</sup> Shirazi, *System of Zakat in Pakistan*. p. 72

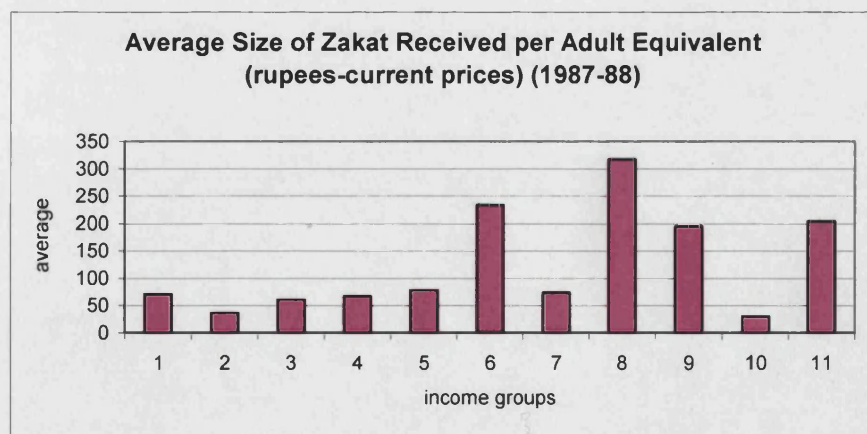
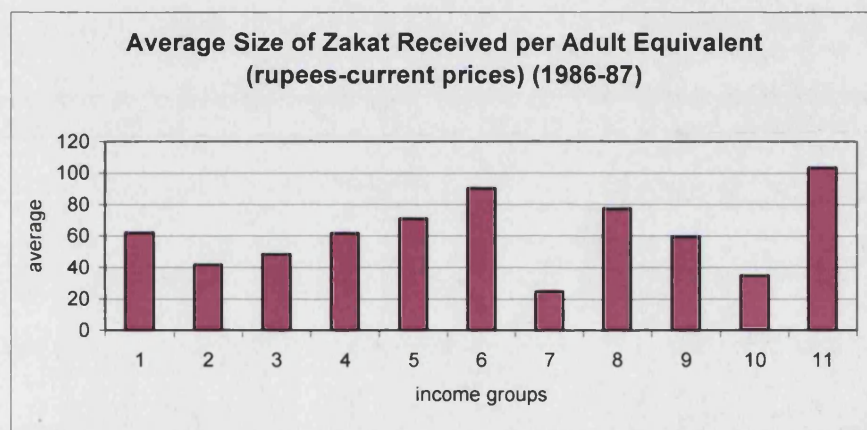
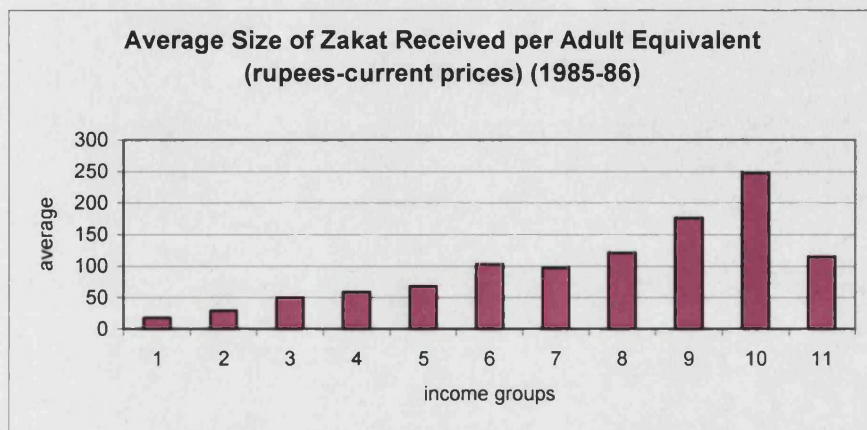


**Table 5.19**

<b>Average Size of Zakat Received per Adult Equivalent (rupees-current prices)</b>			
<b>Income Groups</b>	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>1</b>	18.0	61.9	70.8
<b>2</b>	29.4	41.8	37.0
<b>3</b>	50.4	48.5	61.6
<b>4</b>	58.9	61.7	67.7
<b>5</b>	67.9	70.9	79.0
<b>6</b>	102.6	90.2	233.3
<b>7</b>	96.8	24.7	73.5
<b>8</b>	120.7	77.2	317.4
<b>9</b>	176.4	59.7	195.2
<b>10</b>	247.5	34.7	30.5
<b>11</b>	114.8	103.4	204.0
<b>Overall Average</b>	<b>52.5</b>	<b>51.5</b>	<b>60.1</b>

Source: Based on HIESs and Author's own calculations.

Graphs 5.13 a, b & c



Source: Derived from table 5.19.

The above table and the graphs reveal that for the 1980s the size of *zakat* received per adult equivalent across income groups has remained fairly stable: in 1985-86 and 1986-87 it was around Rs.52 per month, rising to Rs.60 in 1987-88. However, a noteworthy point is that the lowest three income groups received only Rs.46.6 on average, compared to almost Rs.129 for the highest three income brackets. This seems to imply not only poor targeting but also misjudgements in the payment of *zakat*. This also seems to concur with the problem of the lack of planning regarding *zakat* disbursements pointed out in the previous section. However, as shown in tables 5.14a and 5.14b, fewer recipients fell into the highest income groups. Thus the high averages in the highest income groups may be misleading due to the very small numbers of observations in those groups.

A more interesting point is to compare the amount of *zakat* received with the poverty line, i.e. to assess the adequacy of the size of *zakat* received. One finds that *zakat* received per adult equivalent in the lowest income bracket for 1985-86 was only about 8% of the poverty line. For 1986-87 it was 26.4% and for 1987-88 it increased to almost 29%. Thus *zakat* receipts were income supplements and far from sufficient to provide any substantial support. Jehle also asserts that the average beneficiary of *zakat* within each of the income classes could hardly depend on the sums involved.<sup>612</sup> Mohammad also stresses that *zakat* receipts were insufficient to meet the basic needs of the recipients.<sup>613</sup>

This point corresponds with the national aggregate numbers presented in table 5.11 earlier for the same years, which also show that *zakat* disbursements were inadequate. The difference in the numbers depicting the average size of *zakat* received in tables 5.11 and

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<sup>612</sup> Jehle, "Zakat and Inequality." p. 208

<sup>613</sup> Mohammad, "Evaluation of nizam-e-zakat and ushr in Pakistan", p. 28

5.19 above refers to the fact that the figures in table 5.19 are on a monthly basis whereas the figures in table 5.11 are on a yearly basis.

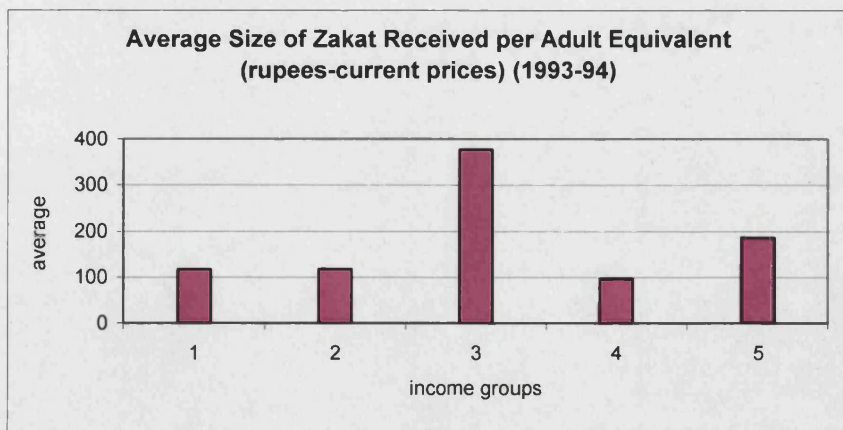
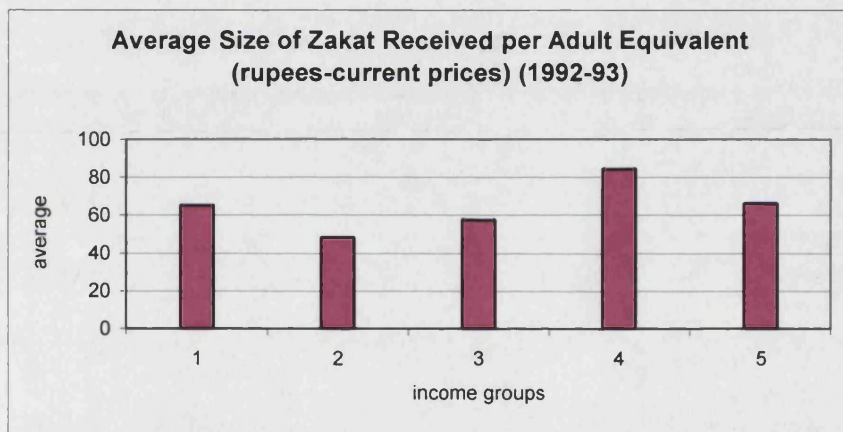
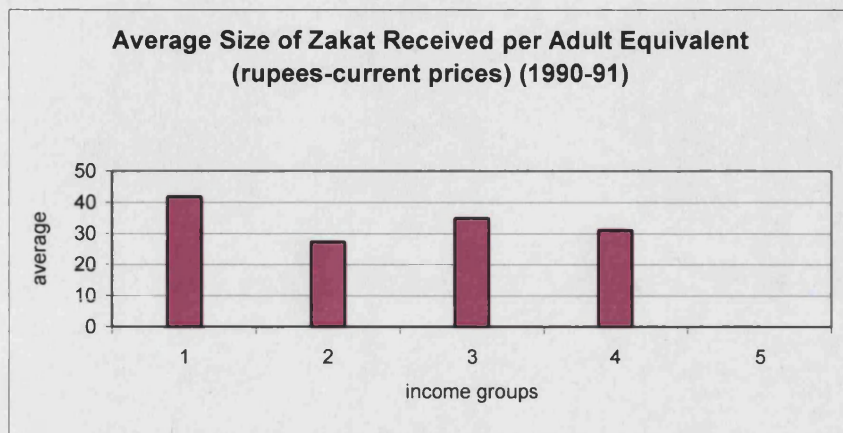
In the 1990s the average size of *zakat* received per adult equivalent appears to have increased substantially for the latter two years, rising from 34.4 rupees per adult equivalent in 1990-91 to 168.6 rupees in 1993-94. (See table 5.20 and graphs 5.14 a, 5.14b and 5.14c below). This seems to be partly related to the effect of very large amounts of *zakat* received by a few households (outliers across income groups) rather than a genuine improvement in the overall distribution of *zakat*. And even for the 1990s one can sense some poor targeting. However, as with the 1980s, the average in the highest income group may be distorted due to the small number of recipients in these income brackets.

**Table 5.20**

<b>Average Size of Zakat Received per Adult Equivalent (rupees-current prices)</b>			
<b>Income Groups</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>1</b>	41.7	65.1	116.7
<b>2</b>	27.3	48.1	118.0
<b>3</b>	34.9	57.4	376.8
<b>4</b>	31.1	84.3	96.7
<b>5</b>	-	66.2	185.9
<b>6</b>	-	-	-
<b>7</b>	-	-	-
<b>8</b>	-	-	-
<b>9</b>	-	-	-
<b>10</b>	-	-	-
<b>11</b>	-	-	-
<b>Overall Average</b>	<b>34.4</b>	<b>67.9</b>	<b>168.6</b>

Source: Based on HIESs and Author's own calculations.

Graphs 5.14a, b & c



Source: Derived from table 5.20.

Nonetheless it is important to point out that the audit reports of the *zakat* funds for the 1990s contain specific examples that highlighted instances where *zakat* money was paid out in a suspicious manner, the authenticity of which could not be established. These audit reports also contain references to non-verifiable payments made from the *zakat* funds.<sup>614</sup> The report of Prime Minister's Special Committee also revealed political considerations in the disbursement of *zakat*.<sup>615</sup>

As during the 1980s, the *zakat* seemed to offer little in terms of poverty eradication especially in the early 1990s. In 1990-91 the *zakat* received per adult equivalent in the lowest income bracket was only 13.3% of the poverty line, though in 1992-93 it improved to almost 17% and in 1993-94 it rose to 27.6%. Thus *zakat* payments were still not adequate to (for example) sustain an adult's nutritional needs. Imtiaz also acknowledged the sums paid out did not take inflation into consideration.<sup>616</sup>

In order to overcome the limitations incumbent in average measures, particularly the distortion of data representation due to extreme values, table 5.21 and graphs 5.15a, 5.15b and 5.15c below give the median *zakat* size received for the 1980s to correct for the presence of outliers.

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<sup>614</sup> Auditor General of Pakistan, "Audit Reports on the Accounts of Zakat Funds (Disbursements)," paragraph numbers 7, 9, 10, 11, 16 and 18.

<sup>615</sup> Finance Division & Central Zakat Administration, "Report of the Committee Appointed by the Prime Minister." pp. 15 & 32

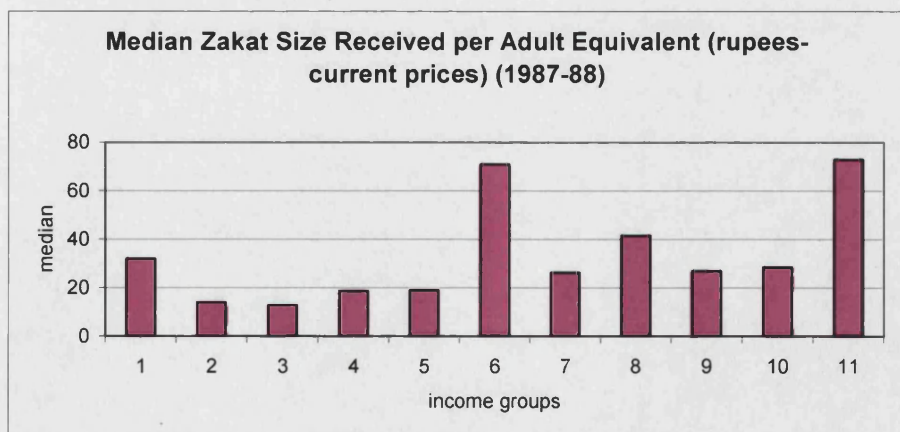
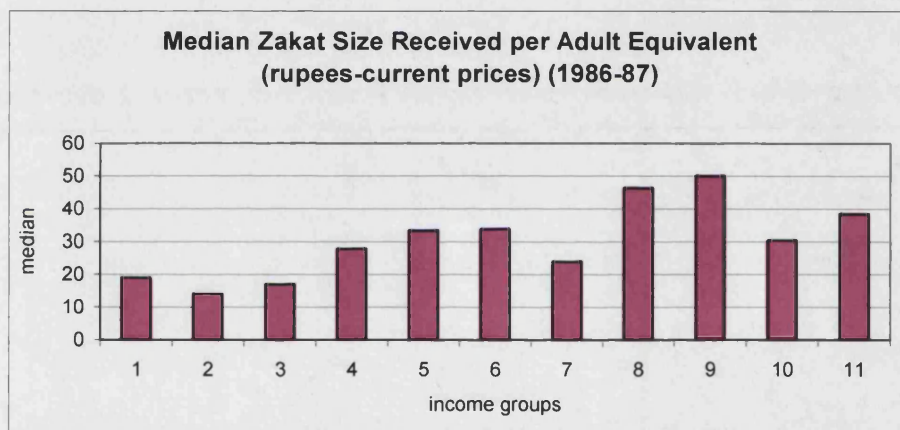
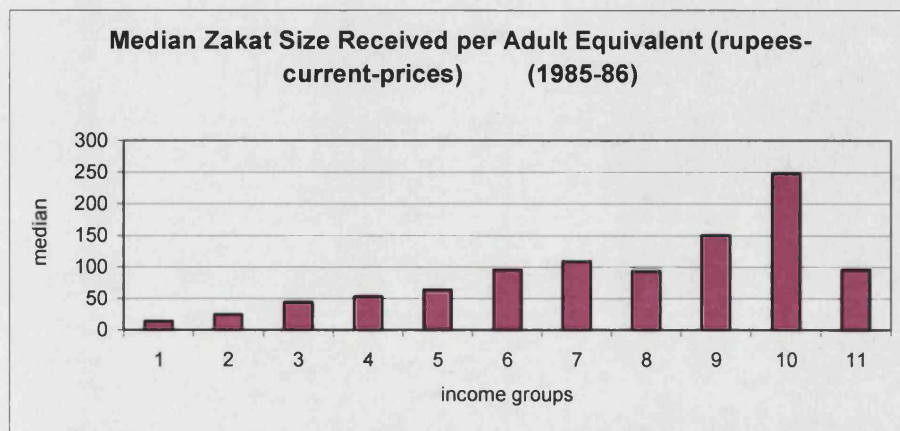
<sup>616</sup> Imtiaz. Interview 26<sup>th</sup> November 2002. The question asked was, 'What was the criterion of disbursing money according to the Ordinance? Was Inflation taken into account? Mr. Imtiaz replied as follows: 'Not per se, except that the Central *Zakat* Council periodically reviewed and increased the rate of disbursement for various categories of *mushtahiqeen*'.

**Table 5.21**

<b>Median Zakat Size Received per Adult Equivalent per Income Group (rupees-current prices)</b>			
	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>Income Groups</b>	<b>Median Zakat Size Received per Adult Equivalent</b>	<b>Median Zakat Size Received per Adult Equivalent</b>	<b>Median Zakat Size Received per Adult Equivalent</b>
<b>1</b>	13.6	19.0	32.1
<b>2</b>	24.4	14.2	14.0
<b>3</b>	43.5	17.0	12.8
<b>4</b>	52.4	27.9	18.8
<b>5</b>	64.2	33.3	19.0
<b>6</b>	96.0	33.8	70.9
<b>7</b>	108.3	24.0	26.3
<b>8</b>	92.8	46.3	41.5
<b>9</b>	150.0	50.0	27.0
<b>10</b>	247.5	30.5	28.4
<b>11</b>	96.2	38.5	72.9
<b>Overall Median</b>	<b>38.8</b>	<b>17.9</b>	<b>16.2</b>

Source: Based on HIESs and Author's own calculations.

Graphs 5.15a, b & c



Source: Derived from table 5.21.



For the 1980s, the median size of adult equivalised *zakat* received seemed to have corrected the distortions present in the averages due to outliers, as is visible from the low values of median as compared to the averages. However, the fall is more evident for the lower income groups than the relatively highest income groups. Thus in terms of the median, the gap between the higher and lower income groups does not seem to be narrowing. For 1985-86 the lowest income group seems to have received the median *zakat* as compared to the tenth highest income group, whose median was 18 times higher. However, this was due to the fact that there was only one observation in this income group (see tables 5.15a). Nonetheless, considering that there were only eleven household recipients in the lowest income group in this year, the observation in the tenth income group seems somewhat relevant.

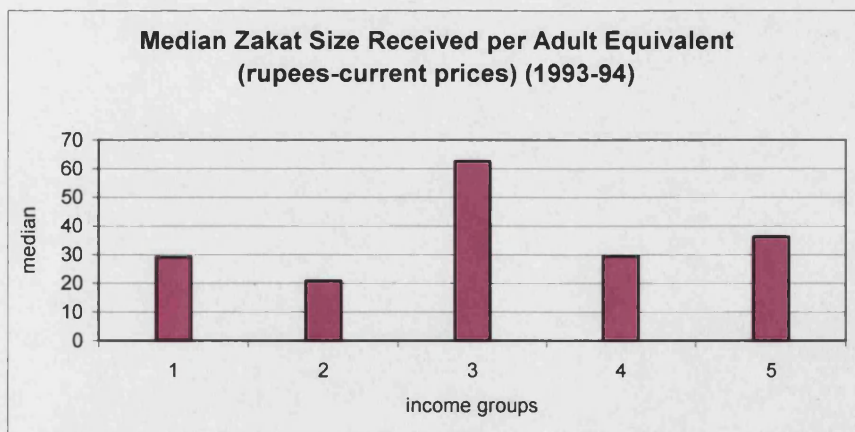
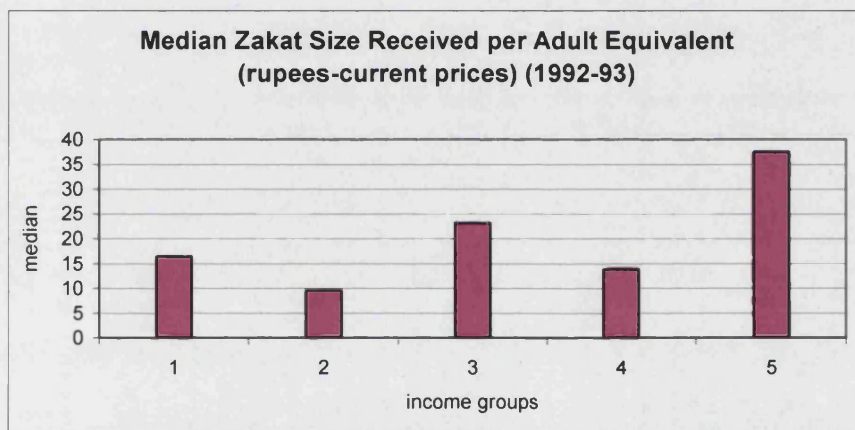
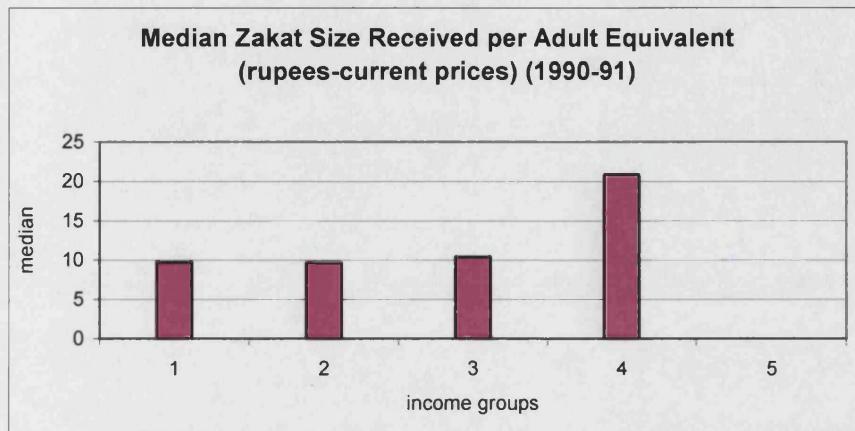
Table 5.22 and graphs 5.16a, 5.16b and 5.16c below present the median size of *zakat* received per adult equivalent per income group for the 1990s.

**Table 5.22**

<b>Median Zakat Size Received per Adult Equivalent per Income Group (rupees-current prices)</b>			
	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>Income Groups</b>	<b>Median Zakat Size Received per Adult Equivalent</b>	<b>Median Zakat Size Received per Adult Equivalent</b>	<b>Median Zakat Size Received per Adult Equivalent</b>
<b>1</b>	9.7	16.5	29.1
<b>2</b>	9.6	9.6	20.8
<b>3</b>	10.4	23.1	62.5
<b>4</b>	20.8	13.9	29.4
<b>5</b>	-	37.5	36.2
<b>6</b>	-	-	-
<b>7</b>	-	-	-
<b>8</b>	-	-	-
<b>9</b>	-	-	-
<b>10</b>	-	-	-
<b>11</b>	-	-	-
<b>Overall Median</b>	<b>10.2</b>	<b>13.9</b>	<b>26.9</b>

Source: Based on the HIESs and Author's own calculations.

**Graphs 5.16a, b & c**



Source: Derived from table 5.22.

One detects a substantial decline from the overall averages to the overall median size of *zakat* received in the 1990s. It seems that the median values are not so affected by the distortion created by the outliers across income groups, which were so noticeable in the averages. Again, the median values of the *zakat* received have fallen substantially from the average values for the lowest income group.

Also, comparing the overall median size of *zakat* received for the two decades, one can notice a general decline from the 1980s to the 1990s though in 1993-94 there is a significant increase of the median to 26.9 rupees per adult equivalent from 13.9 in 1992-93. This decline is consistent with the changes in the HIES structure of the questionnaire for the 1990s, where the *zakat* received variable was narrowed to include *zakat* and *ushr* only (as mentioned in Chapter Four and earlier in this section).

As was done in Chapter Four this decline should be tested for the change in the questionnaire. As mentioned earlier, in the 1990s HIES questionnaire there is a separate entry for 'gifts or assistance/benefits such as educational grants, alimony, trust funds or other grants, inheritance, lottery winning (in cash) etc.', received which does not appear for the 1980s. The 1990s *zakat* received variable is combined with this separate entry in the last column of the table below to see if the median size of *zakat* received can be reconciled across the two decades.

**Table 5.23**

**Median Zakat & Median Zakat + Gift Size Received per Adult Equivalent**

	<b>Median Zakat Size Received per Adult Equivalent (rupees-current prices)</b>	<b>Median Size of Zakat &amp; Gifts Received per Adult Equivalent (rupees-current prices)</b>
<b>1985-86</b>	38.8	-
<b>1986-87</b>	17.9	-
<b>1987-88</b>	16.2	-
<b>1990-91</b>	10.2	13.9
<b>1992-93</b>	13.9	16.5
<b>1993-94</b>	26.9	32.9

Source: Based on HIESs and Author's own calculations.

The last column shows that in the 1990s, even after taking gifts into consideration, people were generally still receiving comparatively less charity than in the 1980s. Thus, it seems that the nominal size of *zakat* received fell for the 1990s.

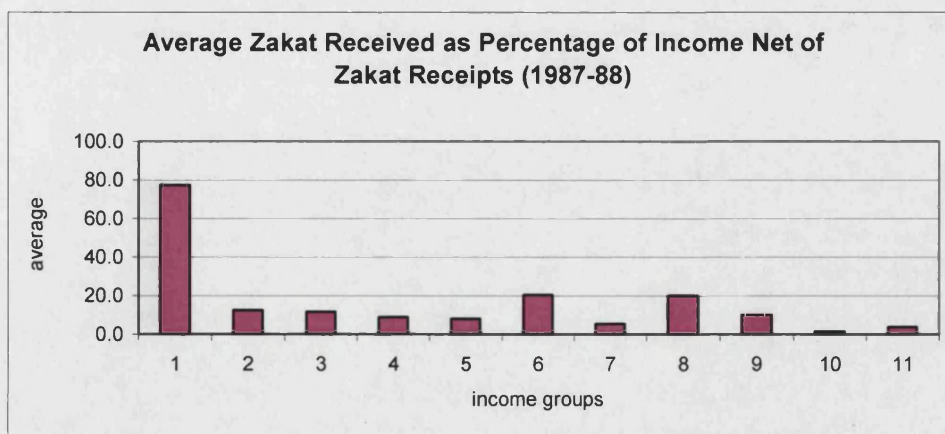
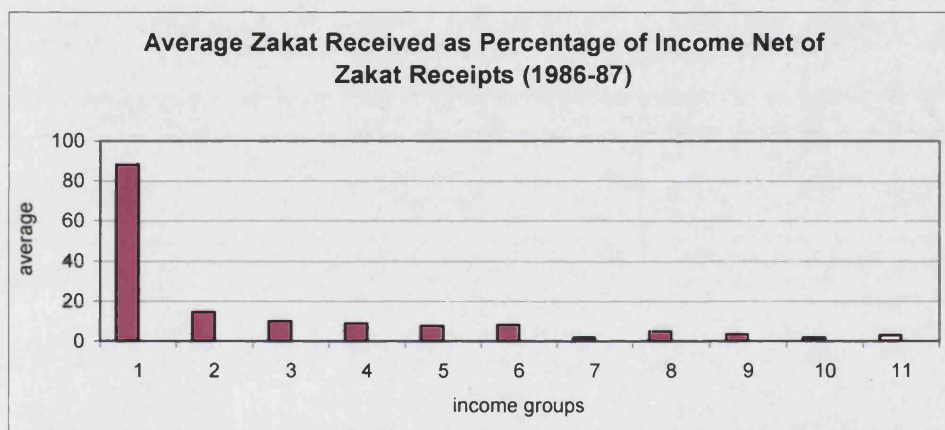
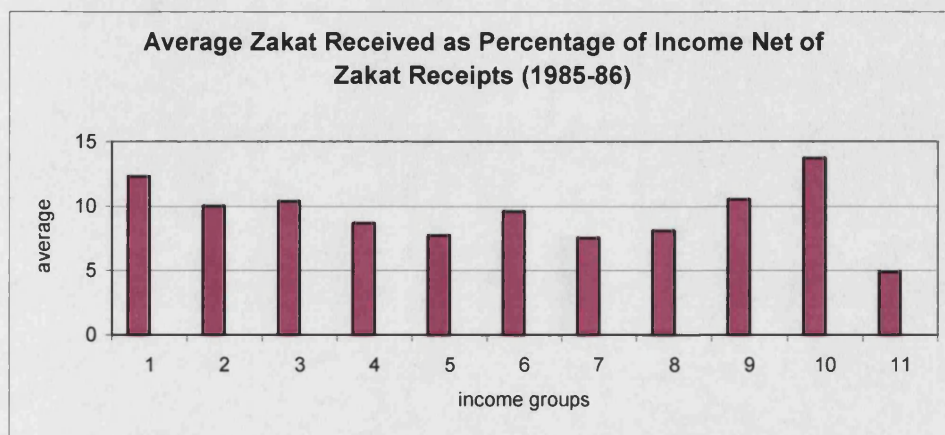
Average or median *zakat* size received does not shed light on the impact of *zakat* on the income of the recipients. It is important to know the percentage increase in the disposable income of the recipient to get an idea of the significance of *zakat*. For this purpose, table 5.24 and graphs 5.17a, 5.17b, and 5.17c below present the average *zakat* received as a percentage of average household income net of *zakat* receipts for the 1980s.

**Table 5.24**

<b>Average Zakat Received as a Percentage of Adult Equivalised Household Income net of Zakat Receipts</b>			
<b>Income Groups</b>	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>1</b>	12.3	88.2	77.3
<b>2</b>	10.0	14.6	12.4
<b>3</b>	10.4	9.9	11.6
<b>4</b>	8.7	8.8	8.9
<b>5</b>	7.7	7.7	8.0
<b>6</b>	9.6	8.3	20.4
<b>7</b>	7.5	1.9	5.5
<b>8</b>	8.1	4.9	19.9
<b>9</b>	10.5	3.4	10.2
<b>10</b>	13.7	1.8	1.5
<b>11</b>	4.9	2.9	3.7
<b>Overall Average</b>	<b>9.6</b>	<b>28.6</b>	<b>24.1</b>

Source: Based on HIESs and Author's own calculations.

Graphs 5.17a, b & c



Source: Derived from table 5.24.

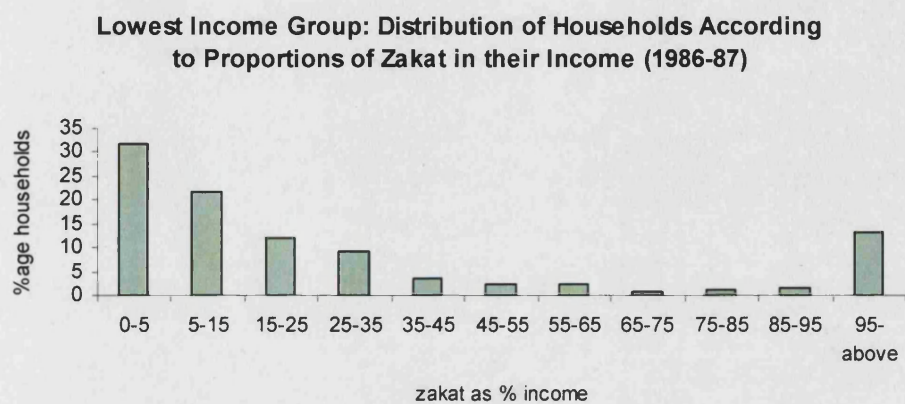
The above table and graphs present a somewhat favourable image of *zakat* disbursements, with relatively high averages for the lowest income brackets except 1985-86. As mentioned before, for 1985-86 the peak in the tenth income group is due to one observation in that group. For the last two years of the 1980s, *zakat* seems to be performing true to its theological intentions.

However, as mentioned earlier, these averages have to be viewed with caution. The height of the bar in the lowest income group can be misleading because many observations in the HIES dataset have incomes close to zero when calculated net of *zakat*. Consequently, the *zakat*'s contribution to the income of such households appears very high.

Graph 5.17d below presents a breakdown of the relationship between *zakat* recipients in the first income bracket and the percentage of *zakat* they received as a boost to their income. It shows for example that in 1986-87 around 13% of households in the first income group received more than 95% of their income as *zakat* payments.



Graph 5.17d

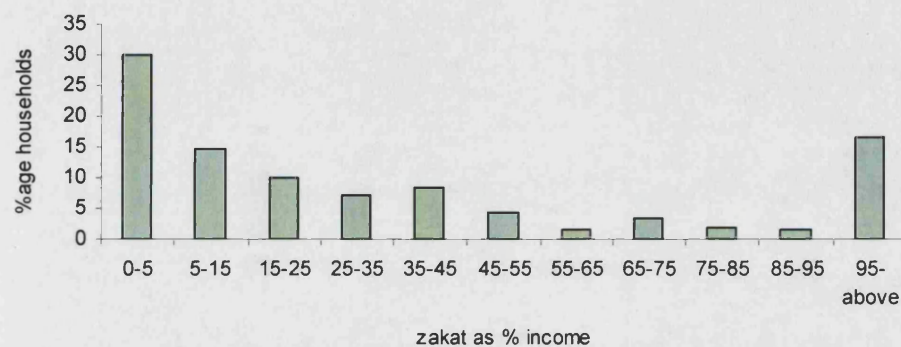


Source: Based on the 1986-87 HIES.

The observations where the proportion of *zakat* in income is 95% or above should be considered as outliers, as such observations distort the underlying picture significantly. Graph 5.17e below shows the percentage of recipients who received more than 95% of their income as *zakat* payments in 1987-88.

**Graph 5.17e**

**Lowest Income Group: Distribution of Households According to the Proportion of Zakat in their Income (1987-88)**



Source: Based on the 1987-88 HIES.

The above graph shows that around 16.5% of households received more than 95% of their income as *zakat* payments in 1987-88.

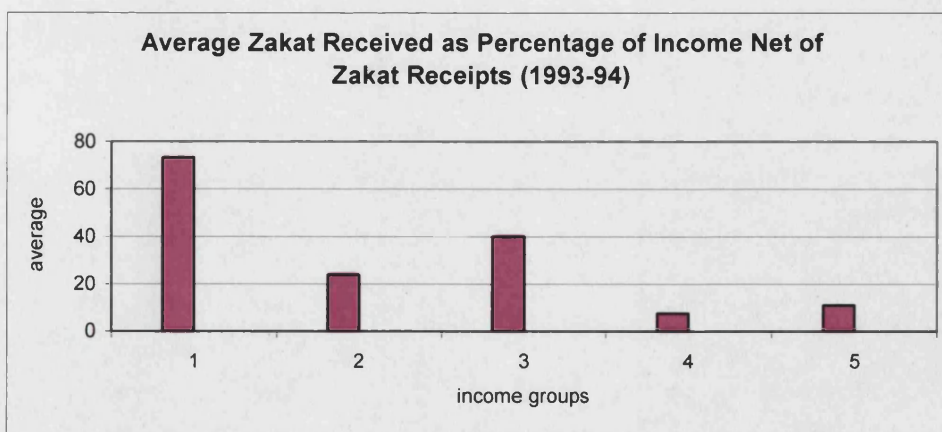
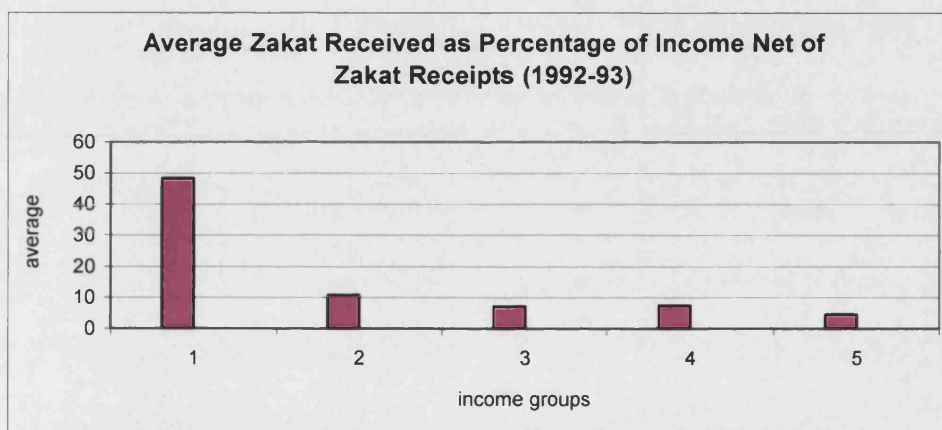
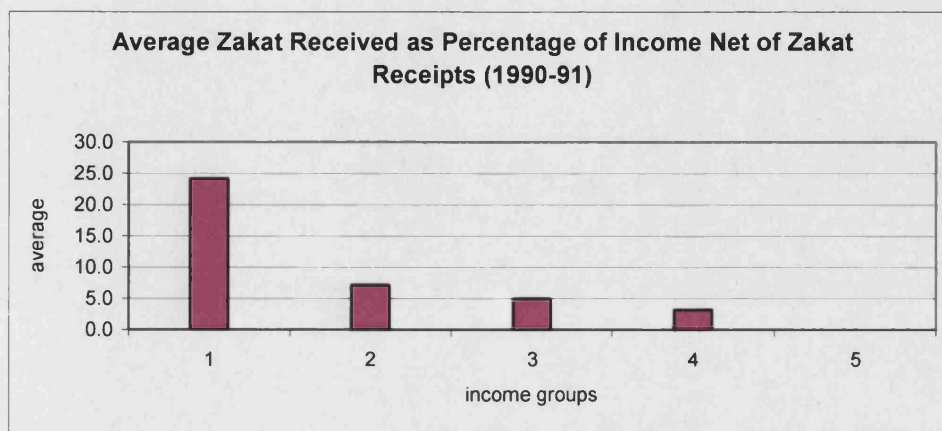
Table 5.25 and graphs 5.18a, 5.18b and 5.18c below plot *zakat* received as a percentage of household income net of *zakat* for the 1990s.

**Table 5.25**

<b>Average Zakat Received as a Percentage of Adult Equivalised Household Income net of Zakat Receipts</b>			
<b>Income Groups</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>1</b>	24.2	48.4	73.3
<b>2</b>	7.1	10.8	23.8
<b>3</b>	4.9	7.2	40.0
<b>4</b>	3.2	7.4	7.5
<b>5</b>	-	4.5	11.0
<b>6</b>	-	-	-
<b>7</b>	-	-	-
<b>8</b>	-	-	-
<b>9</b>	-	-	-
<b>10</b>	-	-	-
<b>11</b>	-	-	-
<b>Overall Average</b>	<b>12.8</b>	<b>25.1</b>	<b>44.2</b>

Source: Based on HIESs and Author's own calculations.

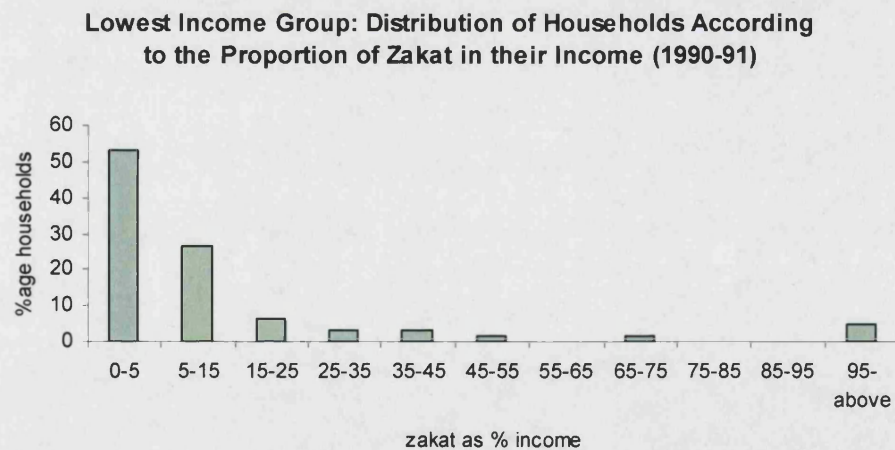
Graphs 5.18a, b & c



Source: Derived from table 5.25.

As in the 1980s, the lowest income groups appear to benefit proportionally more from the *zakat* payments i.e. the percentage by which *zakat* augmented the income of the households in the lowest income bracket is impressively high. For 1990-91 Shirazi also shows that the *zakat*'s most significant contribution was to the lowest income decile.<sup>617</sup> However, the next exercise will show that as with the 1980s this high percentage has to be viewed with caution, as such high averages can be attributed to certain observations in the HIES dataset that have incomes close to zero and consequently experience considerable increases in their income due to *zakat*. Therefore such observations can be considered as outliers. The following three graphs break down the first income group to reveal the details behind the height of the first bar for the three years of the 1990s.

**Graph 5.18d**

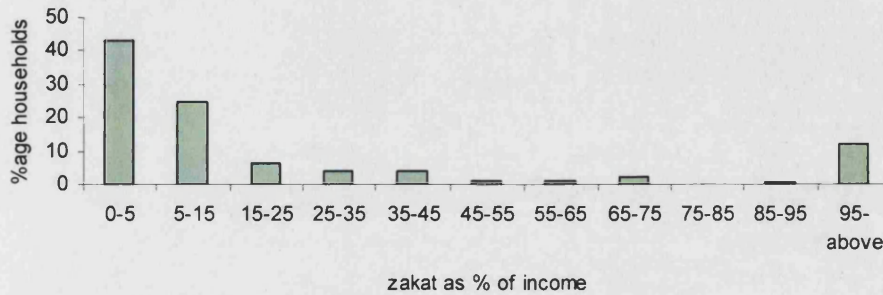


Source: Based on the 1990-91 HIES.

<sup>617</sup> Shirazi, *System of Zakat in Pakistan*. p. 74

**Graph 5.18e**

**Lowest Income Group: Distribution of Households According to the Proportion of Zakat in their Income (1992-93)**



Source: Based on the 1992-93 HIES.

**Graph 5.18f**

**Lowest Income Group: Distribution of Households According to the Proportion of Zakat in their Income (1993-94)**



Source: Based on the 1993-94 HIES.

The above graphs show that in 1990-91 around 4.6% of the households received more than 95% of their income as *zakat* payments, as did 12% in 1992-93 and 19% in 1993-94. It seems that over the period of the 1990s, *zakat* had started to reach a greater share of destitute households.

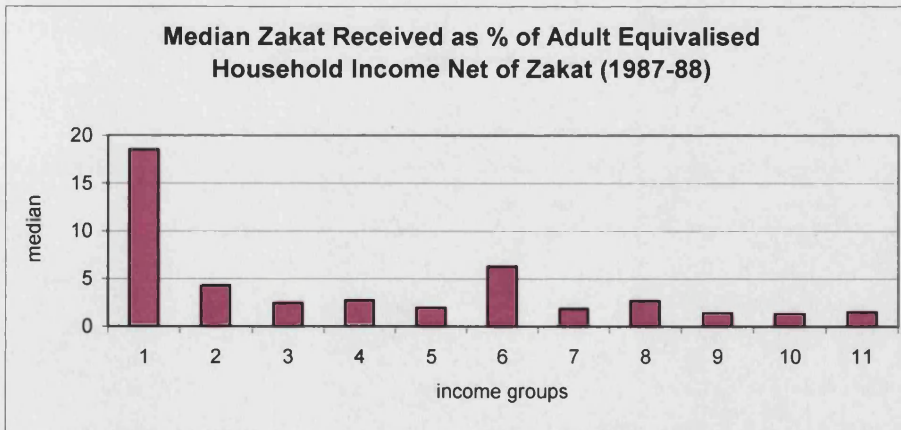
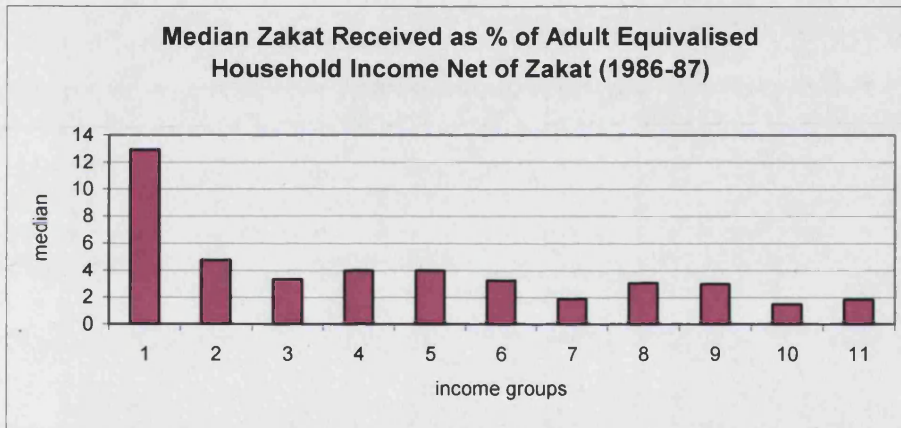
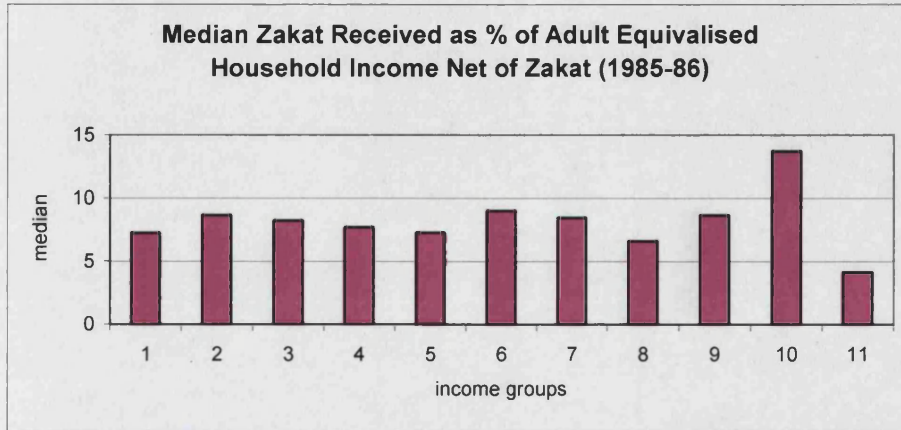
However, the above analyses reveal that the mean value of *zakat* receipts as a percentage of income reported for the 1980s and the 1990s does not represent the actual impact of *zakat* on the income of the recipient due to some outliers. This therefore requires looking at the median *zakat* received as a percentage of income net of *zakat*. Thus table 5.26 and graphs 5.19a, 5.19b and 5.19c below present the scenario.

**Table 5.26**

<b>Median Zakat Received as Percentage of Adult Equivalised Household Income net of Zakat</b>			
<b>Income Groups</b>	<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>
<b>1</b>	7.3	12.9	18.5
<b>2</b>	8.7	4.8	4.3
<b>3</b>	8.2	3.3	2.5
<b>4</b>	7.7	4.0	2.8
<b>5</b>	7.3	4.0	2.0
<b>6</b>	9.0	3.2	6.3
<b>7</b>	8.5	1.9	1.9
<b>8</b>	6.6	3.1	2.7
<b>9</b>	8.7	3.0	1.5
<b>10</b>	13.7	1.5	1.4
<b>11</b>	4.2	1.8	1.5
<b>Overall Median</b>	<b>8.1</b>	<b>4.7</b>	<b>4.2</b>

Source: Based on the HIESs and Author's own calculations.

**Graphs 5.19a, b & c**



Source: Derived from table 5.26.



For the decade of the 1980s the median value of *zakat* received as a proportion of income net of *zakat* is significantly lower than the mean value. This was expected, since the presence of outliers in the first income group was significant, as noted earlier. The median supplementation from *zakat* in 1985-86 seems to have been fairly constant across the income groups suggesting somewhat poor targeting. The fall from the mean to the median values is not considerable either. However, for 1986-87 and 1987-88 the fall from mean to median values is significant, especially in the lower income groups. For 1987-88 the median values have also fallen considerably from the mean for the higher income groups. What emerges is that for 1986-87 and 1987-88 the households in the lowest income group received proportionally more *zakat* than the households in the higher income groups. Indeed both in 1986-87 and 1987-88 the median increase of income due to *zakat* in the first income group is almost three to four times as much as in the second income group and four to five times that of the rest of the income groups. This indicates that in these two years *zakat* distribution was targeted correctly.

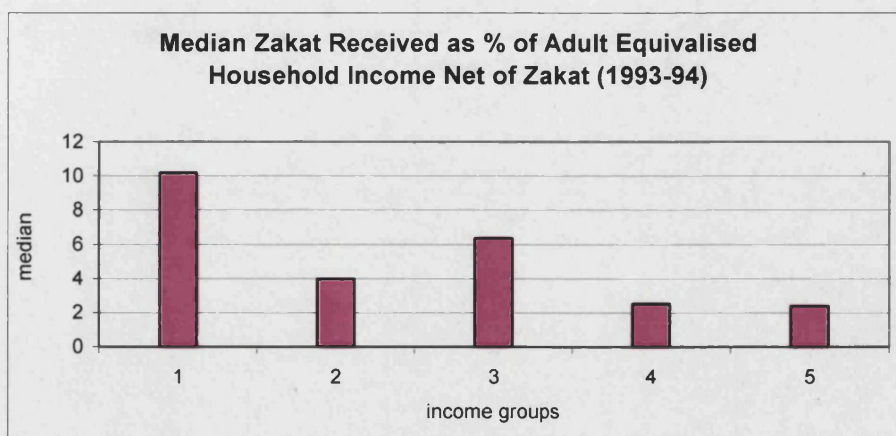
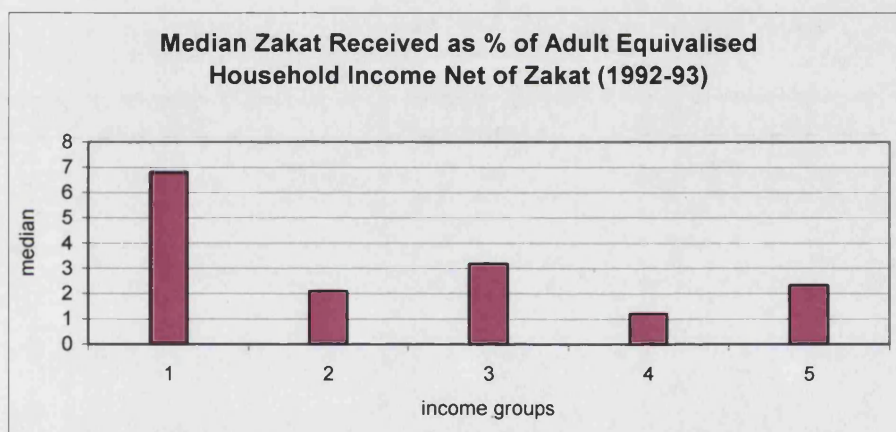
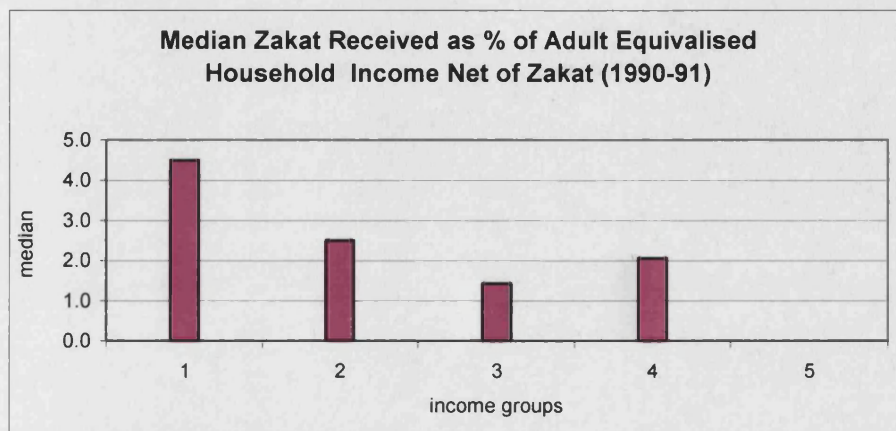
Table 5.27 and graph below 5.20 present the scenario for the 1990s.

**Table 5.27**

<b>Median Zakat Received as Percentage of Adult Equivalised Household Income net of Zakat</b>			
<b>Income Groups</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>1</b>	4.5	6.8	10.2
<b>2</b>	2.5	2.1	4.0
<b>3</b>	1.4	3.2	6.3
<b>4</b>	2.1	1.2	2.5
<b>5</b>	-	2.3	2.4
<b>6</b>	-	-	-
<b>7</b>	-	-	-
<b>8</b>	-	-	-
<b>9</b>	-	-	-
<b>10</b>	-	-	-
<b>11</b>	-	-	-
<b>Overall Median</b>	<b>3.4</b>	<b>3.4</b>	<b>5.7</b>

Source: Based on HIESs and Authors own calculations.

Graphs 5.20a, b & c



Source: Derived from table 5.27.

What emerges from the comparative analyses of the average and the median *zakat* received as a percentage of total income net of *zakat* for the 1990s is that the overall medians are many times lower than the total averages. This shows how the outliers in the income group influenced the average values. Additionally, the fall in the values of the lowest income group from the average to the median *zakat* received as a percentage of income net of *zakat* is considerable.

So far the above analysis has identified the targeting of the recipient households. The analysis showed that the *zakat* was geared towards the lowest income groups, but as at the aggregate level, the coverage was thin for both decades as the percentage of recipient households was unimpressive. In general the section also revealed that for both decades, the size of *zakat* received was relatively insubstantial, reaching only an average 21% of the poverty line in the 1980s and an average 19% in the 1990s. Additionally, the median *zakat* size received was between two and five times lower than the average for not only the lowest income groups but for the overall average and median values for both decades.

The section also showed that for both decades, the percentage by which median *zakat* receipts supplemented the income (net of *zakat*) of the recipient household was highest in the lowest income group. However, for 1985-86 the level of inappropriate targeting was the highest.

These analyses do not, however, directly assess the *zakat's* impact on poverty i.e. it does not assess to what extent *zakat* reduced the poverty gap and the headcount measure. Additionally the analysis does not directly measure *zakat's* impact on inequality either. Thus, the following analysis attempts to provide answers to these queries.

#### **5.4 The *Zakat's* Effect on Poverty and Income Inequality**

It was mentioned in Chapter One that the Islamic individual would organise his economic activities in a way that would not only be economically optimal but also spiritually gratifying, because a Muslim would aspire towards the eradication of poverty and illiteracy, hunger and disease. Additionally, it was pointed out that in the economic milieu, one of the main duties of the Islamic state, as directed by the *Shariah*, is to eradicate poverty. One of the major tools at the disposal of the Islamic state is the *zakat*, as enthusiasts of *zakat* argue that it has major potential for poverty alleviation. They also assert that *zakat* would have major positive effects on creating equality. This section assesses *zakat's* effects on poverty and income inequality in Pakistan.

##### Poverty Analyses:

As mentioned in Chapter Four, this thesis uses the monetary approach in determining absolute poverty in Pakistan, as it is absolute poverty that characterises poverty in this country. Additionally, as mentioned in Chapter Four, the poverty line used in this thesis is a Havinga et al adult equivalised poverty line of Rs.214 per month, which has been inflated for the six years under consideration. This poverty line is based on 1984-85 prices and reflects monthly expenditure just adequate to acquire a simple diet providing daily calorific intake of 1,500 to 2,000 calories.

**Table 5.28****Pakistan Poverty Statistics without *Zakat* based on the HIESs**

	Poverty Line (rupees- hundred)	Households with Adult Equivalent income below the Poverty Line (%)	Poverty Gap (%)
<b>1985-86</b>	226.0	20.9	-20.3
<b>1986-87</b>	233.9	18.8	-19.4
<b>1987-88</b>	244.9	17.1	-19.3
<b>1990-91</b>	313.4	19.0	-27.3
<b>1992-93</b>	383.7	22.3	-27.3
<b>1993-94</b>	422.0	21.9	-26.0

Source: Havinga, I. C., Haanappel, F. W., Louter, A. S., van den Aniel, W. A. "Poverty in Pakistan 1984-85." The Pakistan Development Review 28, no. 4 Part II (1989): 851-869, [www.datastream.net](http://www.datastream.net), HIESs and Author's own calculations.

The table above shows the relevant poverty lines for the six years of analysis, together with the proportion of households with equivalised incomes below the poverty lines and the percentage by which households with equivalised incomes below poverty line fell i.e. the poverty gap. Approximately one-fifth of the households with equivalised incomes were living below the poverty line during the two decades under examination. While there seems to be some decline in the proportion of households with equivalised incomes below the poverty line towards the end of the 1980s, in the 1990s the proportion actually increased. The last column of the above table shows the percentage poverty gap. During the 1980s the poverty gap was narrowing, but during the 1990s the gap widened to more than 27% and so did inequality according to the Gini co-efficient (see table 4.6).

The measures of poverty used in this thesis are similar to those used by Shirazi in his study of the effects of *zakat* in Pakistan for 1987-88 and 1990-91. These poverty measures are the headcount (Hc) and poverty gap (Pg) approach. Apart from this, these are commonly used

measures of poverty that determine the percentage of the population that falls below the poverty line ( $H_c$ ), and add up the extent to which individuals on average fall below the poverty line ( $P_g$ ).

For each year, calculations have been made for the head count defined as:

$$H_c = q/n * 100$$

Where  $q$  is the number of households below the poverty line and  $n$  is the total number of households. This measure gives the proportion of the poor households among the total households.

The greatest virtues of the headcount index are that it is simple to construct and easy to understand and communicate. However, the measure has at least two weaknesses. First, the headcount index does not take the intensity of poverty into account: as a welfare function the headcount index is unsatisfactory in that it violates the transfer principle that states that transfers from a richer to a poorer person should improve the measure of welfare. Thus if a somewhat poor individual were to give to a very poor individual, the headcount index would be unchanged, even though it is reasonable to suppose that overall poverty has lessened. Second, the head-count index does not indicate just how poor the poor are, i.e. income transfer from a poorer person below the poverty line to a richer person below the poverty line will not change the headcount.<sup>618</sup>

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<sup>618</sup> T. Anwar, "Absolute Poverty in Pakistan: Evidence and Alleviating Strategy," *Journal of Rural Development and Administration* 30, no. 2 (1998), p. 78

To make up for these limitations a second measure of poverty approach is utilised in this thesis: the poverty gap approach. This approach gives a good indication of the depth of poverty, i.e. it depends on the distance of the poor below the poverty line.<sup>619</sup> For each year, calculations have been made for the poverty gap defined as:

$$PG = \frac{1}{N} \sum_{s=1}^N \left( \frac{y^s - pl}{pl} \right) * 100$$

Where  $N$  is the number of households below the poverty line,  $y^s$  is the adult equivalised income for households and  $pl$  is the poverty line. The poverty gap thus measures an average percentage of how far people fall below the poverty line.

Both the number of households below the poverty line and the poverty gap given in table 5.28 above are calculated using the pre-*zakat* adult equivalised income distribution, i.e. the income distribution under the assumption that *zakat* did not exist. To assess the impact of *zakat* on poverty alleviation the above quantities are also calculated after *zakat* is deducted and disbursed. Table 5.29 below compares in percentage terms the pre- and post-*zakat* poverty headcount and gap situation for each year in the 1980s.

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<sup>619</sup> Ibid.p. 78



**Table 5.29**

Pre and Post Zakat Income Poverty Head Count and Gap Measure									
	1985-86			1986-87			1987-88		
	AE Pre-Zakat Income	AE Post-Zakat Income	% point difference	AE Pre-Zakat Income	AE Post-Zakat Income	% point difference	AE Pre-Zakat Income	AE Post-Zakat Income	% point difference
Head Count	20.9342	21.5902	0.6561	18.7854	18.8084	0.0229	17.0750	17.1945	0.1195
Poverty Gap	-20.2707	-20.3769	-0.1062	-19.4452	-18.8565	0.5887	-19.2806	-18.6683	0.6123

Source: Based on the HIESs and Author's own calculations.

From the above table it is evident that in all years under consideration the headcount actually increases if *zakat* is taken into account. However, this deterioration is very small and is much less than 1 percentage point, and as such can be classified as insignificant. For example in 1986-87, the number of households living below the poverty line increased after *zakat*, by four units, out of a total sample size of 17,455 households. Similarly in 1987-88, the number of household living below the poverty line rose by 22 units out of a sample of 18,407. And even in 1985-86, when the poverty headcount raised the most, the number of households increases by around 100 units, out of a sample of 16,614. Thus these results could easily be driven by data 'noise' which also includes mis-recording, the fact that income and expenditure accounts are not kept by the households and that many statements of expenditure may be incorrect because of memory bias due to the long reference period. Additionally, the increase in the headcount can be influenced by intra-kin transfers within networks of the very poor. As shown in Chapter Four, the highest *zakat* incidence is registered among the lowest income groups (see table 4.17) considering that the median *zakat* incidence for the 80's was less than 4 rupees on average (see table 4.19). It appears that people just above the poverty line were actually paying *zakat* and consequently being pushed below it. This analysis shows that the *zakat* project did not result in an observable reduction in poverty, when assessed through the poverty headcount measure.

As for the poverty gap, 1985-86 shows deterioration in poverty if *zakat* is taken into consideration, which is again consistent with the high percentage of *zakat* incidence in the lowest income group for this year. In 1986-87 and in 1987-88, however, there appears to be a reduction in the poverty gap. Although the impact is marginal, this reflects the fact that *zakat* disbursements for 1986-87 and 1987-88 were targeted correctly, (see tables 5.24 and 5.26).

A somewhat different picture emerges for the 1990s, as can be seen in table 5.30 below.

**Table 5.30**

Pre and Post Zakat Income Poverty Head Count and Gap Measure									
	1990-91			1992-93			1993-94		
	AE Pre-Zakat Income	AE Post-Zakat Income	% point difference	AE Pre-Zakat Income	AE Post-Zakat Income	% point difference	AE Pre-Zakat Income	AE Post-Zakat Income	% point difference
Head Count	19.0424	19.0424	0.0000	22.2678	22.3499	0.0821	21.9318	21.8910	-0.0408
Poverty Gap	-27.286	-27.2405	0.0454	-27.2504	-27.0628	0.1876	-25.983	-25.8055	0.1776

Source: Based on the HIESs and Author's own calculations.

There does not appear a clear trend for the poverty headcount measure in the 1990s. It shows that in 1990-91 there was no difference in poverty, but the measure increased in 1992-93 and decreased in 1993-94. As in the 1980s, the differences are marginal and are less than 1 percentage point. Though the targeting of the *zakat* disbursements is correct in the 1990s, this does not explain the headcount situation for 1990-91 and 1992-93. It may be explained through the fact that those who received *zakat* in 1990-91 did not receive enough to raise them above the poverty line. For 1993-94 the headcount due to *zakat* improved. This could be due to the fact that the median *zakat* received in this year was proportionately

higher in the lowest income group as compared to the higher income groups (see table 5.27).

The poverty gap in the 1990s reveals a marginal improvement for all the years. This reveals that the median *zakat* received was targeted correctly at the lowest income group.

Shirazi undertook an evaluation of poverty due to *zakat* in Pakistan for 1987-88 and 1990-91. For 1987-88 (unlike the result shown in table 5.29) his results show a favourable picture of *zakat* regarding the poverty headcount measure with a 0.5 percentage point decrease,<sup>620</sup> opposed to an increase of 0.11 percentage points shown in table 5.29. However, his results do concur with those of the present analysis in that the poverty gap narrowed in 1987-88.<sup>621</sup> For 1990-91 his results for poverty headcount show a decrease of 0.75 percentage points<sup>622</sup> whereas it remained unchanged according to table 5.30. Regarding the reduction of the poverty gap, his results show that for 1990-91 the poverty gap was reduced by 3.2 percentage points<sup>623</sup> whereas according to table 5.30 the reduction was only 0.04 percentage points.<sup>624</sup>

What comes across from the above paragraph is that though Shirazi's results present a numerically positive scenario of the *zakat* system these results are not economically significant. Some differences in the results of the two studies can perhaps be explained by the fact that Shirazi used a per capita poverty line based on the basic needs approach and

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<sup>620</sup> Shirazi, *System of Zakat in Pakistan*. p. 88

<sup>621</sup> Ibid. p. 88

<sup>622</sup> Ibid. p. 90

<sup>623</sup> Ibid. p. 90

<sup>624</sup> It is important to note here that while reporting the headcount and poverty gap results, Shirazi exaggerates the results by presenting the differences in the headcount and poverty gap as percentages.

the present thesis used an adult equivalised poverty line based on the calorific approach. Poverty measures are sensitive to differences in units of measurements.

Regarding the present thesis, in terms of poverty reduction due to *zakat*, the above analyses have shown that for the 1980s the headcount situation deteriorated whereas the poverty gap improved in 1986-87 and 1987-88. In the 1990s the poverty gap improved in all the years while the headcount situation deteriorated in 1992-93. Looking at these basic indicators of poverty alleviation, one can conclude that *zakat's* role has not been decisively positive in reducing poverty in Pakistan. Whenever its positive effects have been felt, they have been unimpressive and marginal. And where instances of exacerbation of poverty are concerned, (though the increase in poverty in an already poor society can reflect badly on a system ushered in with religious zest) these have also been marginal and could possibly be accounted for by the fact that in many instances the highest *zakat* incidence is registered among the lowest income groups, that the increase in poverty can be influenced by intra-kin transfers within networks of the very poor or even that these results could easily be driven by data 'noise' as described above. The main finding is that the *zakat* did not result in an obvious and noticeable reduction in poverty as measured by the headcount and the poverty gap measure.

The following analysis deals with *zakat's* effect on inequality reduction. It is an important inquiry as inequality reduction is an important component of *zakat's* rationale according to the aspirations of the Islamists and the Pakistani Government's objectives.

### Inequality

An extremely wide variety of statistical indices can be used to measure inequality. Sen divides these measures into two categories: objective or purely statistical, which would include the Lorenz curve and the Gini coefficient, and the normative ones. Sen holds that the normative measures of income inequality try to measure inequality in terms of some normative notion of social welfare, so that a higher degree of inequality corresponds to a lower level of social welfare for a given total of income.<sup>625</sup>

One such index is the Atkinson index, which tries to measure income inequality in terms of some normative notion of welfare. In this thesis, it is this index that has been used to analyse the impact of *zakat* on income inequality in Pakistan. The Atkinson index of inequality has been chosen following in the footsteps of Jehle's work on the impact of *zakat* on inequality for Pakistan and its provinces for the year 1987-88.<sup>626</sup>

The rationale behind following Jehle's methodology in measuring inequality via the Atkinson index is that this index embodies an explicit set of social values that are reflected in the form of different values of ' $e$ '; the ethical parameter. This ethical parameter can be given different values to project the degree of a policy's aversion to inequality. Jehle holds that the normative values prescribed by Islam accord exactly with those advanced by John Rawls in his theory of social justice. He asserts that the Atkinson index allows the Rawlsian criterion of social justice, reflected in the value of  $e = -\infty$ , to be quantified.<sup>627</sup> However, as argued in Chapter One, Islam does not uphold complete equality, as reflected in  $e = -\infty$ , but acknowledges differences in human beings due to their natural capabilities. Thus the Rawlsian maximum criterion of social justice is disqualified from the present analyses. The

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<sup>625</sup> See Jehle, "Islamic Perspective on Inequality in Pakistan." p. 297

<sup>626</sup> Jehle, "Zakat and Inequality."

<sup>627</sup> Ibid.

Atkinson index allows flexibility through the different values that can be attributed to 'e', which indicate the ethical stances on inequality of a society or a policy. This flexibility makes it appropriate to determine the levels of aversion to inequality or rather, the predilection for equality in an Islamic society.

The Atkinson index is calculated as follows:

$$I = 1 - \left[ \sum_{s=1}^{AE} \left( \frac{y^s}{\mu} \right)^e \right]^{1/e} \quad \text{with } e \neq 0$$

Where  $y^s$  is the income of the adult equivalent,  $s$   $\mu$  is the average adult equivalent income across the survey and 'e' is the ethical parameter representing the social preference. 'e' denotes the degree of inequality aversion; the lower the value of 'e' the greater is the aversion to inequality.

At one extreme, if  $e=1$ , the society is indifferent to inequality and the Atkinson index assumes a value of zero, indicating that no inequality in the income distribution is perceived, no matter how unequal the income distribution is. At the other extreme, if 'e' goes up to  $-\infty$ , even the smallest difference in income among adult equivalents is felt intensely and the Atkinson index approaches a value of one, which represents the value of maximum inequality.

To gauge the effect of *zakat* on income inequality in Pakistan, different ethical relative indices of income inequality are computed and compared for three alternative scenarios:

First, a 'pre-*zakat*' income distribution is considered. This distribution represents adult equivalised income for households that would have been obtained if those who gave *zakat* had no obligation to give, and if those who eventually received it did not receive any, i.e. without the institution of *zakat*. To obtain this distribution, households that reported receiving *zakat* (which is included in the HIES definition of income) had that deducted from their income.

Secondly, an intermediate income distribution is considered. This is the adult equivalised income distribution for households after *zakat* has been given by the givers but not received by the recipients. Thus this adult equivalised income distribution for households weighs the contributory aspect of *zakat*, and shows how the income distribution changed when the *zakat* contribution was deducted from the income of those who contributed. This intermediate step towards the evaluation of *zakat* for the reduction of income inequality helps to track the step-by-step impact of *zakat* on the income of the households.

Finally, the 'post-*zakat*' income distribution is considered. This is the adult equivalised income distribution for households after *zakat* had been deducted from the income of those who give *zakat* and included in the income of those households who reported receiving it.

The comparison of the inequality index between the 'pre-*zakat*' and 'post-*zakat*' income distributions suggests whether *zakat* has been successful or not in reducing inequality for each year of analysis under different values of 'e'. The introduction of an 'intermediate' distribution is, however, crucial to the analysis as it allows the gauging of the stage (collection or disbursement) at which the institution of *zakat* contributed mostly (if at all) to a reduction in inequality. It is therefore highly useful in shedding light on the targeting of the programme. If *zakat* is targeted properly one should theoretically expect the inequality index to decline at each step of the process, i.e. if the rich tend to give more *zakat* than the

poor, then the intermediate inequality index will fall compared to the 'pre-*zakat*' index. Additionally, the inequality index would continue to decline in the 'post-*zakat*' distribution if the poorest tend to receive more *zakat* than the relatively rich. However, if the inequality index decreases in the intermediate stage and increases in the post-*zakat* scenario, this reflects the fact that the programme is being wrongly targeted or that there are major leakages in the system.

The following table presents the Atkinson inequality index under these three scenarios, evaluated at different degrees of inequality aversion. An ethical parameter value of 0.8 represents a limit case, which implies an underlying social welfare function close to the utilitarian case. At the other extreme, a value of  $-3$  approaches the other limiting case of a supposedly Islamic welfare function.



**Table 5.31**

**Atkinson Inequality index for Pakistan With,  
Without & Intermediate income (post-zakat  
for givers, pre- for receivers) Zakat**

<b>Ethical Parameter</b>		<b>1985-86</b>	<b>1986-87</b>	<b>1987-88</b>	<b>1990-91</b>	<b>1992-93</b>	<b>1993-94</b>
<b>0.8</b>	Pre-Zakat Index	5.00%	4.66%	5.16%	6.99%	7.11%	6.54%
	Intermediate-Zakat Index	5.02%	4.67%	5.18%	6.97%	7.11%	6.53%
	Post-Zakat Index	5.03%	4.66%	5.18%	6.95%	7.09%	6.52%
<b>0.5</b>	Pre-Zakat Index	11.18%	10.65%	11.31%	15.36%	15.58%	14.53%
	Intermediate-Zakat Index	11.23%	10.69%	11.37%	15.33%	15.59%	14.52%
	Post-Zakat Index	11.25%	10.63%	11.35%	15.28%	15.54%	14.50%
<b>-0.33</b>	Pre-Zakat Index	23.32%	21.77%	22.52%	30.24%	32.22%	30.28%
	Intermediate-Zakat Index	23.39%	21.87%	22.63%	30.22%	32.29%	30.28%
	Post-Zakat Index	23.45%	21.68%	22.52%	30.11%	32.13%	30.17%
<b>-1</b>	Pre-Zakat Index	30.22%	28.98%	29.20%	42.32%	45.06%	40.06%
	Intermediate-Zakat Index	30.31%	29.10%	29.33%	42.48%	45.23%	40.12%
	Post-Zakat Index	30.38%	28.66%	29.07%	42.34%	44.92%	39.89%
<b>-3</b>	Pre-Zakat Index	45.18%	46.74%	44.86%	93.82%	93.44%	70.08%
	Intermediate-Zakat Index	45.34%	46.82%	44.96%	93.81%	93.41%	70.49%
	Post-Zakat Index	45.42%	42.36%	42.80%	93.82%	93.42%	70.02%

Source: Based on HIESs and Author's own calculations.

The above table shows trends in inequality for the 1980s and the 1990s. As expected, the Atkinson inequality index is generally very low for large values of 'e' and it increases steadily as the value of 'e' declines.

In the above table, 1985-86 is the only year that shows that inequality has increased consistently whatever ethical parameter value is chosen (although with the ethical parameter of 0.8 the differences are relatively small), suggesting that for this year *zakat* has not contributed to reducing inequality. The 'post-*zakat*' index is always bigger than the 'pre-*zakat*' inequality index. This situation concurs with the results of poverty for this year given in table 5.29, which shows an increase in the headcount measure as well as the poverty gap according to post *zakat* income. Unlike in 1985-86, in 1992-93 and 1993-94 there is an indiscriminate reduction in inequality across all the values of the ethical parameters. Although, this reduction is not always gradual across pre-intermediate and post *zakat* income. Also, the improvement is generally very small, and is in the range of some cents of a percentage point. This situation almost concurs with the poverty analysis shown in table 5.30, which reveals that the poverty gap decreased for 1992-93 and 1993-94.

1986-87 has shown that but for the ethical value of 0.8 (where inequality remained unchanged), inequality declined from pre- to post-*zakat*. 1987-88 shows that the higher two values of the ethical parameter seem to indicate an increase in the inequality index whereas the lower values indicate an improvement. The results for this year only partially agree with those of Jehle, as his study for the year 1987-88 reveals that for all the values of the ethical parameter, *zakat* tends to redistribute income from those better off to those worse off.<sup>628</sup> For 1990-91, the evidence indicates that the *zakat* policy was conducive to decreasing inequality when the society's underlying welfare criterion was less sympathetic towards the least well off in the society, whereas for the lower two ethical parameters inequality tended to increase or remain unchanged.

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<sup>628</sup> Ibid. pp. 213

The above analyses do not reveal the source of equality or inequality: i.e. is it at the collection or disbursement state that *zakat* affects inequality? To facilitate this comparison, table 5.32 below presents the change in the inequality index at each step of the process of the *zakat* policy. The 'total change' represents the difference (in percentage points) between the pre- and post-*zakat* Atkinson indices. It measures therefore the overall change in inequality due to *zakat*. Additionally, the 'partial change due to *zakat* collection' (which is the difference between intermediate *zakat* and pre-*zakat*) and the 'partial change due to *zakat* disbursement' (the difference between post-*zakat* and intermediate *zakat*) measure the impact on income distribution and inequality due to the collection and disbursement of *zakat*.

**Table 5.32**

**Change in the Atkinson Inequality Index after Zakat (percentage points - a negative sign indicates a decline in inequality)**

Parameters		1985-86	1986-87	1987-88	1990-91	1992-93	1993-94
	<b>Total Change</b>	<b>0.031</b>	<b>0.007</b>	<b>0.029</b>	<b>-0.035</b>	<b>-0.014</b>	<b>-0.014</b>
<b>0.8</b>	<b>Partial Change After Zakat Collection</b>	0.021	0.016	0.029	-0.014	0.006	-0.005
	<b>Partial Change After Zakat Disbursement</b>	0.010	-0.009	-0.001	-0.022	-0.021	-0.009
	<b>Total Change</b>	<b>0.068</b>	<b>-0.016</b>	<b>0.043</b>	<b>-0.078</b>	<b>-0.036</b>	<b>-0.038</b>
<b>0.5</b>	<b>Partial Change After Zakat Collection</b>	0.044	0.040	0.060	-0.028	0.016	-0.013
	<b>Partial Change After Zakat Disbursement</b>	0.025	-0.056	-0.017	-0.049	-0.052	-0.025
	<b>Total Change</b>	<b>0.132</b>	<b>-0.097</b>	<b>-0.003</b>	<b>-0.133</b>	<b>-0.091</b>	<b>-0.111</b>
<b>-0.33</b>	<b>Partial Change After Zakat Collection</b>	0.076	0.096	0.107	-0.019	0.074	-0.004
	<b>Partial Change After Zakat Disbursement</b>	0.056	-0.193	-0.109	-0.114	-0.165	-0.107
	<b>Total Change</b>	<b>0.161</b>	<b>-0.316</b>	<b>-0.130</b>	<b>0.016</b>	<b>-0.137</b>	<b>-0.171</b>
<b>-1</b>	<b>Partial Change Due to Zakat Collection</b>	0.091	0.128	0.126	0.156	0.172	0.060
	<b>Partial Change After Zakat Disbursement</b>	0.069	-0.444	-0.256	-0.140	-0.308	-0.231
	<b>Total Change</b>	<b>0.237</b>	<b>-4.379</b>	<b>-2.058</b>	<b>0.005</b>	<b>-0.019</b>	<b>-0.058</b>
<b>-3</b>	<b>Partial Change After Zakat Collection</b>	0.156	0.078	0.099	-0.003	-0.028	0.414
	<b>Partial Change After Zakat Disbursement</b>	0.080	-4.457	-2.157	0.008	0.009	-0.473

Source: Based on HIESs and Author's own calculations.

The above table shows that in 1985-86, where inequality increases for all the values of 'e', it increases due to collection and disbursement. For the other years in the 1980s where inequality increased for some values of 'e', it was mainly the collection that exacerbated this increase. The table also shows that with regards to the origin of the improvement in inequality, for 1986-87, 1987-88 and 1992-93, in most instances improvement came from disbursement. In fact in many cases the partial change due to *zakat* collection generated an

increase in the inequality index rather than the expected decline in inequality. This implies that the collection aspect of *zakat* appears to be improperly targeted for these instances in these years and that *zakat* was being taken from the poor and disbursed to the equally poor or poorer sections of the society.

This is in line with the analyses in Chapter Three, which suggested that considering the shape of the *zakat* policy, the incidence would probably fall on the poorer sections of the society. Consequently Chapter Four showed that *zakat* incidence was mostly higher for the lower income groups.

On the other hand the disbursement of *zakat* was generally well targeted, as the inequality tended to decrease in most years/values in the ethical parameter. The reason why *zakat*'s performance in the disbursement part of the process is not enough to generate a consistent and significant overall reduction in equality also lies in the limited number of beneficiaries, again something that this chapter has already analysed. The present analysis of inequality suggests that the achievement of *zakat* has been economically poor, although in some cases it was statistically positive but not substantial.

Summing up, one can make a judgement about the differences in the index values between pre and post *zakat* income which is: although the analyses regarding *zakat* policy's ability to combat inequality has presented some numerically positive results, these are not significant. The overall economic effect of *zakat* on inequality has been marginal. These analyses show that for many values of the ethical parameter, *zakat* met the Pakistani government's objectives and fulfilled its religious commitment asserted by the Islamists,

nonetheless its effectiveness as an inequality-reducing tool was negligible. This overall result is in general acquiescence with those of Jehle and Shirazi.

## **Conclusion**

This chapter analysed the *zakat* disbursement policy in Pakistan at the national aggregate level and at the household level. The aim of the chapter was to test the effectiveness of the *zakat* policy in the light of the Pakistani government's objectives and the Islamists' assertions about the redistributive capacity of *zakat*. The chapter was to reveal the extent to which Pakistan's *zakat* policy reduced poverty and decreased income inequality on a practical level.

This chapter also demonstrated that the Islamic state lacked commitment to the *zakat* policy. This is evident at the national aggregate level, where the *zakat* policy was not operating in a manner that would make it effective in terms of its objectives. These analyses showed that for the entire period analysed, *zakat* transfers from the CZA were unimpressive, lingering around 0.2% of GDP on average. Due to the absence of financial, budgetary and target planning, *zakat* collections were always higher than the disbursements. This led to high amounts of unspent *zakat* money at the CZC level. This practice of not releasing the funds infected the entire system at all levels. Funds were not released to the LZCs for disbursements to the poor, and instead were kept in the PZC accounts to collect interest. Furthermore, *zakat* money was invested in instruments, which led to loss of the money which meant a squandering of funds that should have been spent on welfare purposes for the poor.

Moreover, there were no set rules for the timing and size of *zakat* disbursements, and wherever these rules did exist, these were never adhered to, and thus there was much arbitrariness with *zakat* disbursements. Furthermore, there was a lack of long-term commitment on the part of the *zakat* management towards the *zakat* policy, which could be seen through the preferential treatment given to *zakat* disbursements for subsistence rather than for rehabilitation.

There was a lack of clarity regarding *zakat*'s eligibility criterion. This ambiguity fashioned the *zakat* system in a manner that made the system not only prone to malpractices by the LZCs but also created the problems of irregular patterns of *zakat* disbursements and delays in payments to individuals throughout the period analysed. The blurred nature of the eligibility criterion also kept the number of beneficiaries rather low due to uncertainty. Furthermore, the *zakat* disbursements appeared to be inadequate even for sustenance.

At the micro level, in terms of targeting the *zakat* was meeting its theological and official objectives, although it seemed that for the whole period under consideration, receiving *zakat* was a rare phenomenon. There seemed to be some improper targeting in the 1980s although the situation became relatively better for the 1990s. Additionally, *zakat* disbursements even at the household level seemed to be inadequate for both decades and these disbursements were not large enough to provide sustenance when compared to the poverty lines for the respective years.

For both the decades, the median *zakat* received as a percentage of income net of *zakat* in the lower income groups was significant. However, when compared to the poverty line it

appears that over half of those who received *zakat* were not among the poorest members of the society.

For the two decades generally it appears that the lowest income households tended to receive more *zakat* in proportion to income than their relatively better-off counterparts. However, the results also reveal that the value of *zakat* received (as a proportion of income) in the relatively higher income groups was non-negligible, especially in the 1980s. As pointed out earlier, there appears to be some misallocation of *zakat* funds, which reveals a lack of standardisation of *zakat* disbursements and also the provision of services, which is an indication of the commitment of the Islamic state to *zakat* policy as stated in Chapter Two.

From this chapter what appears to emerge is that in terms of the *zakat*'s official objectives, and the Islamists' religious rhetoric, *zakat*'s function as an instrument to reduce poverty and inequality has not been decisively positive and whenever it did have positive effects, they have been unimpressive. Most of the redistribution has taken place between the poor, with the relatively wealthy households remaining rather unaffected. In plain words, *zakat* has not lived up to the gusto with which it was introduced.



## Conclusion

This thesis has addressed the question of whether or not the *zakat* delivered welfare and justice in Pakistan between 1980 and 1994. It concludes that there is a wide gulf between the ideological aspirations of the Islamists regarding the *zakat* and how it actually performs on the ground. It also concludes that the *zakat* could not fulfil its official objectives of reducing poverty and inequality effectively.

The thesis proposes that the reason for this failure is that even if giving *zakat* it is a divine duty, the *zakat* is also a political instrument that can be easily manipulated by the powerful Islamic state, which, contrary to what the Islamists assume, might not necessarily operate with the wellbeing of the masses in mind. In addition, the *zakat* can also suffer significantly if the Islamic state does not show full commitment to it as its religious nature would not command obedience. In the context of Pakistan, the ideological functions of the *zakat* have been hampered by the insincerity of the Islamic state as reflected in the *zakat* policy. This lack of commitment to the *zakat* contributed to its unimpressive performance in that it failed to exploit the wealth of the rich and bring justice to the poor. Moreover, the *zakat* was unable to create welfare in the society as it failed to alleviate poverty or reduce inequality to any significant degree.

The thesis started by describing the evolution of the Islamic economic system through an exploration of Islam's economic philosophy. Islamists claim that the paramount goal of the Islamic economic system is not only the welfare of the individual but also of society as a whole. Its rationale is that the system strives for the prevalence of equality and justice.

Islamists say that the Islamic economic system is different from the individualistic, selfish and acquisitive mentality of Capitalism; different from the incentive-dampening, initiative-smothering approach of Socialism to economic activity and finally, it is unlike Communism with its omnipresent state and restrictive approach to property rights and individual entrepreneurship. The Islamic economic system achieves the goal of societal welfare and a just economic society through the economic philosophy of Islam, which is its foundation. Through this system the Islamists aspire to provide scope for individual economic initiative while keeping the ills of the market mechanism under strict observation.

Islamic economic philosophy considers economic activity to be a form of worship and proposes that economics should not be seen as a positivist science but rather as an element of a broad-ranging theology. The incentive structure of this normative approach to economics is based on four axioms: the Unity of Allah, belief in the Day of Judgement, Moderation, i.e. avoiding excessive consumption and not being extravagant and, finally, Fairness, i.e. the Islamic producer would denigrate the idea of profit and utility maximisation for his own self and instead aim for the maximisation of societal benefit. These axioms are the keystone of the faith of *homo Islamicus* and will be demonstrated in his actions.

The Islamists hold that the goals of the Islamic economic system are to fulfil the basic needs of every individual in terms of providing subsistence and social security. They add that it is the objective of the Islamic economic system to minimise any gap in the distribution of resources between individuals, ensure the freedom of the individual and create a Muslim universal brotherhood. The Islamic concept of equality aims to limit the

disposable income of the rich by transferring adequate sums to the poor in addition to reducing the number of people in the poorest sectors of society. The Islamic economic system accomplishes its welfare goals via the functioning of the Islamic state, the absence of *riba* and the operation of *modarabah* in the economy and imposition of the *zakat*. As pointed out in Chapter One, the definition of welfare and justice is largely absent from Islamic economic literature and this can cause much controversy where application is concerned.

Islamists assert that because of the Islamic state's dominating economic interventionist powers, it will be successful in bringing about a just, fair and equitable society, as its operation will be conducive to the successful implementation of Islamic policies. As mentioned in Chapter Two, the Islamic state has extensive political powers through the post of the *amir* and the institution of *shura*, which can exert immense influence on legislation thus affecting all aspects of Muslim society.

Islamists consider the *zakat* to be the cornerstone for realising the Islamic concept of justice and equality. The *zakat* is one of the fundamentals of Islam's belief structure and is one of the most important religious duties in Islam. The *zakat* is charged annually at a flat rate of 2.5% on the total personal net worth of an individual's assets although the *zakat* on agricultural produce (which is also called *ushr*) ranges between 5% and 10%. The *zakat* is considered the right of the poor people in the wealth of the rich. The rationale of the *zakat* is to assure the basic necessities of life for those who cannot undertake employment and can justify seeking assistance from society. *Zakat* funds are to be given to the needy.

Islamists assert that the religious nature of the *zakat* will make people pay it willingly. They assert that the goal of the *zakat* is to alleviate poverty and they also affirm that it has major potential for the mobilisation of resources to reduce income inequality. Many Islamists hold that because the Islamic state has an obligation to deliver welfare to the people, it should therefore collect the *zakat*, yet others dispute this position arguing that the *zakat* should be a voluntary donation. The rate, *nisab*, and levy of the *zakat* are also aspects that are contentious. Thus the *zakat's* workability can be hampered by its contentious nature, which has major repercussions for its effectiveness in meeting its targets of poverty alleviation and reducing inequality. The *zakat's* effectiveness can also be diminished by its vulnerability to the dominating economic and political power of the Islamic state.

This thesis holds that the *zakat* is not only a religious duty meant for the economic wellbeing of the deprived, but because of the economic implications of its nature, the *zakat* is also an instrument through which the Islamic state gains political patronage and support. Chapter Two has shown that the policy-making process in an Islamic polity can influence the shape of *zakat* policy in a way that suits the broader political objectives of the Islamic state. This can have implications for the achievement of the *zakat's* welfare objectives. Apparently Islamists have failed to acknowledge that even if a political and economic system is based on divine injunctions, its welfare instruments can be used to gain political influence and are therefore political structures whose policies are not created in a political vacuum. This implies that the divine altruistic nature of the *zakat* does not protect it from manipulation from interest groups that are part of the structure of the Islamic state (which is pivotal for the operation of the *zakat*). It seems that the Islamists believe that because the state is Islamic it would by default have internalised the philosophical values of Islam and would operate with the intention of promoting societal welfare. They assume that the

different factions making up the Islamic state would sideline any aspiration or concern in favour of the wider societal good.

What would also hamper the *zakat's* workability is if the Islamic state fails to make a concerted effort to show its commitment to the *zakat*. The Islamic state needs to demonstrate to the public that it has internalised Islamic philosophy and is working for the collective good of the people and is thus sincere about its welfare policy. For this reason it will have to establish an element of trust between itself and the individual. It is the factor of trust between the individual and the Islamic state that will determine the effectiveness of the policy and its mechanism. The Islamic state will have to create trust through reputational effects such as fairness in policy design and implementation, rigour in the enforcement of punishment for non-compliance, standardisation of policy provision and finally high levels of competence and honesty in the *zakat* bureaucracy.

It is contentious to assert that just because the policy is Islamic and imposed by the Islamic state it will be effective and accepted by the individual. The individual will make his/her own assessment regarding the Islamic character of the policy, i.e. the fairness of the policy process and the shape of the imposed Islamic policy. Thus it is not automatic that the *zakat's* Islamic status alone will create trust between the individual and the Islamic state, or that the Islamists' semantic labelling such as 'Islamic state' and '*homo Islamicus*' will transform the state or the individual into an epitome of Islamic altruism.

This thesis has tried, empirically, to test the above theoretical framework by assessing the role of the Islamic state in utilising the *zakat* to promote welfare in society in a manner that would reflect the ideals of Islamic distributive justice. It has done so by examining the

policy-making procedure of the *zakat* and its actual implementation regarding giving and disbursements at the national aggregate and household levels. Finally, the thesis has tested the performance of the *zakat* in terms of its religious and official rationale, i.e. the reduction of poverty and income inequality.

Chapter Three undertook the first step by conducting a comparison between the views of the Council of Islamic Ideology (an institution fundamental to the Islamisation of Pakistan) and the details of the policy as implemented by Zia's Islamic state and came to the conclusion that *zakat* revenue was sacrificed to appease various political and economic elites. The hidden agenda behind the introduction of the *zakat* was to bolster Zia's power and authority over the people he ruled as the *zakat* was a powerful instrument to gain the confidence of the poor masses.

This chapter placed the *zakat* within the history of Islam in Pakistan and explained that the reason the *zakat* was not imposed in Pakistan immediately after its creation was because the various governments that came to power in Pakistan used Islam only as a political platform to fortify their power without sincerity for the Islamic ideals. It also suggested that it was the schism in Pakistan's Islamic Ideology, between a homeland for the Muslims and an Islamic state, which prevented Islamisation and the hence imposition of the *zakat* by various governments before Zia came to power in 1977.

Zia introduced Islamisation and invoked Pakistan's ideological and Islam's religious rhetoric to strengthen his rule and acquire political legitimacy. He felt the need to turn to Islam as he had disposed of a democratic leader.

Zia's Islamic state introduced a *zakat* policy that actually appeared to maintain the economic divisions of the society. The shape of the *zakat* policy seemed to replicate the weak politico-economic situation of the poor. In this respect, the ambiguity in the *Shariah* regarding many aspects of the *zakat* (as seen in Chapter Two) permitted the Islamic state to shape *zakat* policy to suit its broader political interests.

Thus Chapter Three showed that the Islamic state constructed *zakat* policy in a way that would secure the maximum political and economic benefit to Zia, his government and the elite. This was to have huge implications for *zakat* revenue as the shape of the policy revealed that the Islamic tenets of justice and equality would be largely sacrificed under this policy. The scale of this impediment to the effectiveness of the *zakat* was analysed in chapters Four and Five.

Chapter Four took another fundamental step in answering the central question of the thesis by examining the way in which *zakat* policy affected *zakat* revenue. The chapter also considered the importance of the Islamic state's commitment to the *zakat* policy for its effective operation. The chapter showed that the *zakat* did not contribute hugely to mobilising resources for poverty alleviation as was evident in terms of *zakat* raised as percentage of GDP. Additionally, *zakat* incidence seemed to be regressive, and was not successful in creating vertical equity because it failed to draw on the wealth of the rich. In fact it was more burdensome for the poorer sections of society.

This chapter started by providing historical evidence regarding the lack of ability of the governments that came to power in Pakistan to demonstrate credible commitment to their declared objectives to the people of the country. This tendency to betray commitments

affected the development of trust between the state and individuals in Pakistan, which had important repercussions for the future of the *zakat* policy with regard to its revenue levels.

To describe the betrayal of commitment, the chapter assessed the political aspects such as military coups and the denial of democracy and self-determination; problems with constitution formation; the repeated abrogation of constitutions; and finally the role of the bureaucracy in Pakistan. What came to the forefront in the short history of Pakistan was that as political actors and institutions vied for power, democracy and its institutions such as the legislature were compromised. The repeated imposition of martial law deprived the people of Pakistan of their basic civil rights. Dismissals of parliament and military coups did little to prove that the ruling elites were committed to empowering the people or endorsing policies advantageous to the masses. Such developments had consequences for the effectiveness of the *zakat* policy, particularly on the revenue side, where it seems to have met with scepticism and even resistance.

The chapter proceeded to show that this mistrustful and suspicious relationship between the individual and the state had a negative affect on the ideological claims of the Islamic economists, as is evident from the unimpressive *zakat* compliance rate and the low revenues collected. The study revealed that individuals transferred and transformed funds into assets on which *zakat* was not levied. The Islamists believe strongly that because the *zakat* is said to be the right of the poor to the wealth of the rich, its incidence would fall on the richer members of the Islamic society. But detailed household-level expenditure data revealed that *zakat* incidence was regressive, and was far from achieving vertical equity because it scarcely managed to exploit the wealth of the rich.



In order to assess the importance of the role of the Islamic state's commitment to *zakat* policy for its effective operation, the chapter proceeded to demonstrate that the effectiveness of the *zakat* was indeed hampered. Although the state claimed to be Islamic and had imposed a divinely ordained policy like the *zakat*, it (and the subsequent governments) failed to develop trust through the creation of reputational effects that would have been conducive to the smooth operation of the policy. In other words the state not only failed to create a fair *zakat* policy but also failed to implement the policy in a fair, efficient, effective and accountable manner. There was a high degree of politicisation of *zakat* institutions. There existed absence of effective punishment structures in cases of non-compliance.

Chapter Five took the final step in addressing the main question of the thesis by examining the benefit side of the *zakat* in Pakistan. It tried to assess the effectiveness of the *zakat* in terms of its goals as asserted by the Islamists and officially stated by the state. The chapter concluded that the *zakat's* function as a poverty-reducing instrument has been unimpressive. Whenever its effects were shown to be statistically positive, these were of marginal significance; it failed to have a major impact on poverty and the reduction of inequality. Additionally, the chapter showed that the *zakat* was being taken from the poor and disbursed to the poor. The chapter demonstrated that at the national aggregate level for most of the years *zakat* disbursements were questionably lower than collections. The chapter also revealed that the various tiers of the *zakat* institution were unable to carry out policy guidelines. There was an absence of financial, budgetary and target planning. Consequently, there were high levels of unspent *zakat* funds at the CZC level. The LZCs could not release funds for disbursement to the poor as these were kept in the PZC accounts to collect interest. Moreover, *zakat* money was invested in financial instruments that led to

the loss of *zakat* money that was meant for the poor. There was much arbitrariness with regards to *zakat* disbursements to individuals as there was a lack of clarity regarding the *zakat*'s eligibility criterion. This ambiguity not only led to malpractices within the system but also created the problems of irregular *zakat* disbursements and delays in payments to individuals. Additionally, the ambiguity of the *zakat* eligibility criterion kept the number of beneficiaries rather low. Finally, the *zakat* disbursements appeared to be inadequate even for sustenance.

In many instances those who received *zakat* were not among the poorest in society. When compared against the poverty lines for the respective years, the disbursements seemed inadequate and were less than 30% of the poverty line. In addition, it seemed that for the whole period under consideration, receiving *zakat* was a rare phenomenon.

There also seemed to be improper targeting in the 1980s in *zakat* disbursements although the situation became relatively better in the 1990s. In the 1980s the value of *zakat* payments as a proportion of total income for recipients in higher income groups was not negligible. This misallocation showed that there was politicisation and a lack of standardisation of *zakat* disbursements, indicating the Islamic state's lack of commitment to the *zakat* policy.

With regards to the *zakat*'s effectiveness in terms of poverty alleviation, what comes to the forefront is that the *zakat* did little to raise households above the poverty line, because the individual value and instances of *zakat* disbursements were too small. With regards to inequality, *zakat* did make a positive contribution to reducing inequality but only to a very small degree. The reason for the marginal impact of the *zakat* on inequality lay in the small number of *zakat* beneficiaries, which resulted in a meagre and insignificant overall

reduction in equality. Interestingly, this reduction in inequality was mostly due to the disbursement side of the *zakat* and not the collection side, because collection increased inequality. This implies that the *zakat* was being taken from the poor and disbursed among them.

This study of the *zakat*'s implementation in Pakistan has been a test of the ideals that make up Islamic economics. It has been an examination of the coherence of beliefs that form the basis of this philosophy. It has been an investigation into the claims of the Islamists who hold that the Islamic economic system is quintessentially geared towards not only the welfare of the individual but of the society as a whole and that it pays utmost regard to equality and justice. It has been about testing empirically how ideal and effective the Islamic economic system is in developing economic strategies that would solve the economic problems of poor Islamic countries and bring about the fair allocation of resources, creating a more equal society and thus delivering its objectives of welfare and justice.

The thesis has shown that there is an ideological failure of the Islamic economic mechanism. The reason is embedded in the fact that there is a plethora of interpretations of the *Shariah* regarding economic injunctions, not only across various Islamic sects but within similar legal traditions as well. This vagueness of the Islamic law has been shown to have implications for both individual and institutional behaviour. These ambiguities and confusions have been compounded by the fact that the Islamic economic injunctions have been translated into a system by both jurists and economists. This procedure has led to an abnormal interaction between formal economics and Islamic economic ideas leading to not only an incompatible but also an obscure theoretical amalgam lacking consistency and

pragmatism in theorisation and application. Thus, the Islamic economic system lacks standardisation and proper theorising of consumer, entrepreneurial, firm and state behaviour.

The Islamists do not seem to have realised that the lack of clarity of the *Shariah* might lead to an increased possibility of conflict and disorder within the system and thus its abuse. They seem to have overlooked the possibility of the existence of such problems as free-riding, opportunistic behaviour and egoism by the *homo Islamicus*, and the possibility that the Islamic state might exploit the power bestowed upon it by the *Shariah*. The reason for this is that the adherents of Islamic economic thought have expressed complete faith in the altruism of *homo Islamicus* and in the collective role of various social and economic institutions. They seem to consider the state of being a Muslim and the indoctrination of Islamic values to be a two-way street, which automatically leads to a no-conflict zone with no external constraints playing upon the individual. Their romanticism regarding Islamic economic ideals has led to a vacuum in research regarding institutional arrangements that define and establish sets of rules and procedures conducive to an effective operation of a system.

The lack of emphasis by the Islamists on universal practices such as commitment, enforcement, accountability and rules of engagement has resulted in poor policy design, ineffective implementation and inadequate enforcement. These failures manifest themselves through the *zakat* policy's inability to be true to its objectives of creating the Islamic ideals of fairness and justice in society, i.e. the empirical failure of an ideology priding itself on its fair allocation of resources and creation of justice. It is this ideological and empirical failure of the *zakat* policy that has been demonstrated in this thesis.

However this does not imply that the idea of *zakat* reducing poverty and inequality can be shelved. Issues such as the acceptance of universal applicability of *zakat* at the state level needs to be addressed. There should be a common understanding and recognition of the nature of *zakat* as sanctioned by the *Shariah* which transcends the interpretations of various Islamic sects and binds these schools of thought by the essence of *zakat* i.e. charity. Failure to do so makes *zakat* political and diminishes its humanitarian aspect. Additionally, after *zakat* has been translated into a policy, the next step is to treat *zakat* like any other policy i.e. thoroughly re-evaluate the policy, periodically re-assess *zakat's* administrative organisation and execute exhaustive checks and balances of its functioning without leaving any aspect to the religious fervour of the people, only then can *zakat* achieve its noble objectives.

## Appendix A

This appendix presents the *zakat* incidence with and without the weighting factors provided in the HIES. The purpose is to show that the results in this study of *zakat* are not affected by the application of the weighting factors.

The weights (expansion or raising factors) as these are called are to correct for the presence of potential bias due to sampling methods in the surveys. In drawing a sample for a survey, allowance has to be made for the fact that the sampling procedure does not give all households in the country (through the strata according to which it is divided) an equal chance of being selected for the survey. Weights attempt to correct for the fact that different households in the country have different chances of being included in the sample for the survey. Additionally, raising factors are used to weight data in order to obtain nationally representative statistics. If no weights are given with the data, the resulting estimates are likely to be biased as different types of households may not be represented in the sample in the same proportion as they exist in the population as a whole.<sup>629</sup> Thus to adjust for over-sampling of certain households in the HIES, weights are calculated and included in the HIES data sets.<sup>630</sup>

However the application of weights is important only if the study desires to infer results at the national aggregate level. The present study however, has micro-level concerns, relating to the households. It focuses on issues such as who pays and receives *zakat* in terms of

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<sup>629</sup> A. Deaton, *The Analysis of Household Surveys A Microeconomic Approach to Development Policy* (Washington: The International Banl for Reconstruction and Development/ The World Bank, 1997). pp. 15-16 & 44-45

<sup>630</sup> Howes and Zaidi, "Notes on Some Household Surveys from Pakistan", p. 4

differences between income groups. Simply, the central examination of this thesis concentrates on *zakat* incidence and *zakat* received across income groups for households.

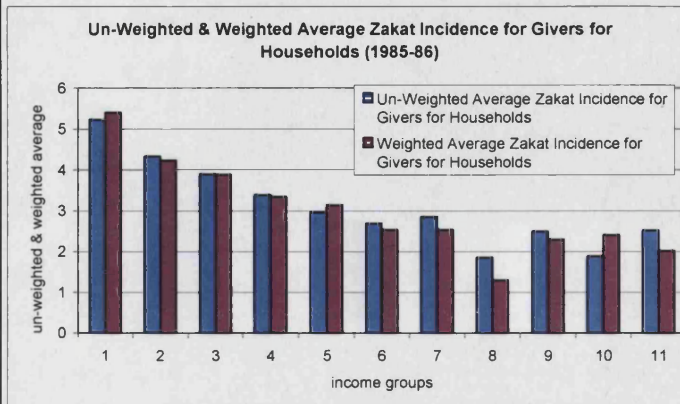
To show if the application of weights to the household quantities affects the results reported in this thesis significantly, weights are applied to the calculation of *zakat* incidence per income group and the results are compared with un-weighted *zakat* incidence.

The weighted average of *zakat* incidence is computed for each income group measured at the household level, where the weights are the raising factors given in the survey data. The appendix has chosen the *zakat* incidence analysis for the application of weights as *zakat* given as proportion of income is one of the most central themes of this thesis and can be considered a true representative of the *zakat* analysis across the study.

For the 1980s the following tables and graphs show that the pattern of average *zakat* incidence does not change significantly between weighted and un-weighted data. Indeed, for all the years in 1980s, *zakat* incidence is almost similar at each income group level and at the total average level for both the weighted and the un-weighted data. Hence the conclusions remain the same: as highlighted in section 4.2 B i.e. the burden of *zakat* incidence appears to fall mostly on the lower income groups.

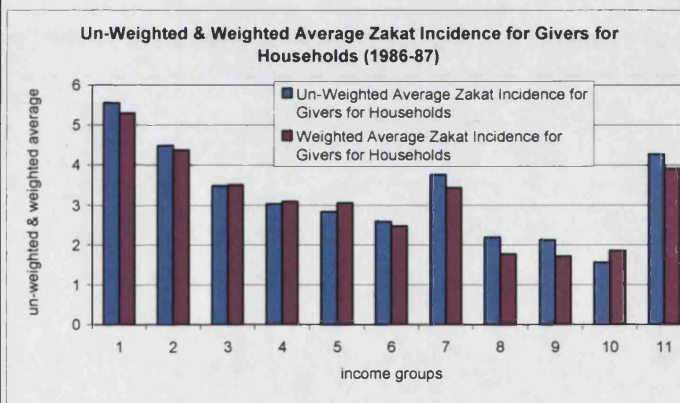
1985-86

Un-Weighted & Weighted Average Zakat Incidence for Givers (as a proportion of Household Income)		
AE Income Groups	Un-Weighted Average Zakat Incidence for Givers for Households	Weighted Average Zakat Incidence for Givers for Households
1	5.23	5.41
2	4.33	4.23
3	3.89	3.88
4	3.38	3.34
5	2.96	3.14
6	2.69	2.53
7	2.85	2.53
8	1.85	1.30
9	2.49	2.29
10	1.88	2.40
11	2.51	2.01
Total	4.07	4.07



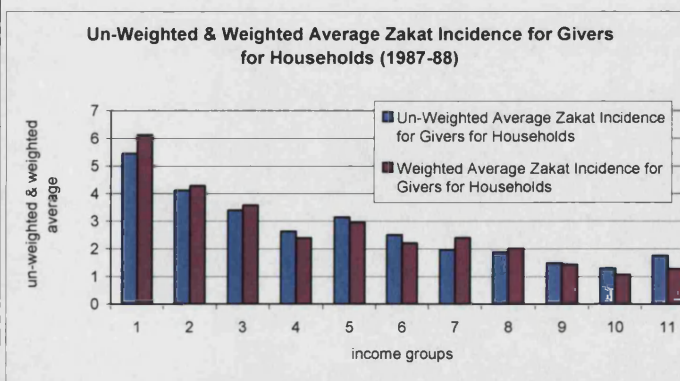
1986-87

Un-Weighted & Weighted Average Zakat Incidence for Givers (as a proportion of Household Income)		
AE Income Groups	Un-Weighted Average Zakat Incidence for Givers for Households	Weighted Average Zakat Incidence for Givers for Households
1	5.55	5.30
2	4.49	4.37
3	3.49	3.51
4	3.03	3.09
5	2.83	3.06
6	2.58	2.48
7	3.76	3.43
8	2.19	1.77
9	2.12	1.71
10	1.56	1.85
11	4.27	3.91
Total	4.10	4.05



1987-88

Un-Weighted & Weighted Average Zakat Incidence for Givers (as a proportion of Household Income)		
AE Income Groups	Un-Weighted Average Zakat Incidence for Givers for Households	Weighted Average Zakat Incidence for Givers for Households
2	4.12	4.28
3	3.39	3.58
4	2.63	2.39
5	3.14	2.96
6	2.51	2.20
7	1.97	2.40
8	1.87	2.01
9	1.48	1.43
10	1.29	1.06
11	1.75	1.27
Total	3.74	3.97



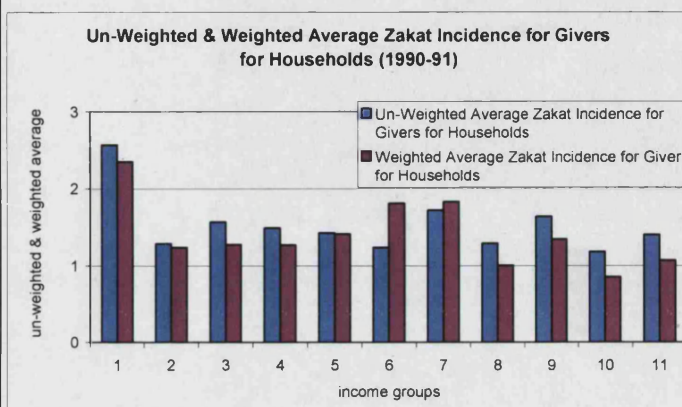
Source: Derived from the HIESs and Author's own calculations.



The same can be observed for the 1990s, i.e. the pattern of *zakat* incidence does not alter. However one does observe a few prominent peaks such as in income group 6 in 1990-91, group 9 in 1992-93 and groups 6 and 9 for 1993-94.

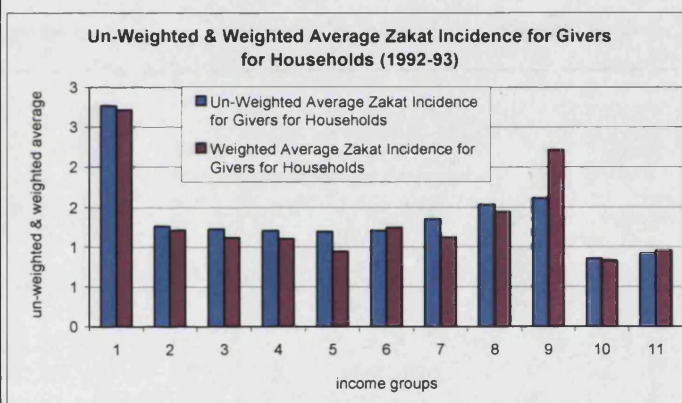
1990-91

Un-Weighted & Weighted Average Zakat Incidence for Givers (as a proportion of Household Income)		
AE Income Groups	Un-Weighted Average Zakat Incidence for Givers for Households	Weighted Average Zakat Incidence for Givers for Households
1	2.57	2.35
2	1.28	1.24
3	1.57	1.27
4	1.49	1.27
5	1.43	1.41
6	1.24	1.81
7	1.72	1.83
8	1.29	1.00
9	1.64	1.34
10	1.18	0.85
11	1.40	1.07
Total	1.51	1.38



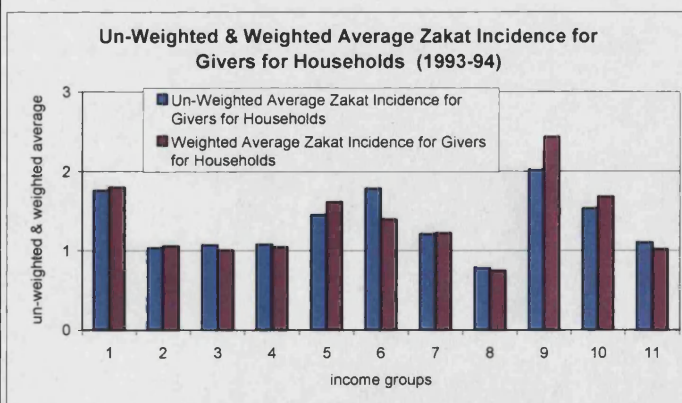
1992-93

Un-Weighted & Weighted Average Zakat Incidence for Givers (as a proportion of Household Income)		
AE Income Groups	Un-Weighted Average Zakat Incidence for Givers for Households	Weighted Average Zakat Incidence for Givers for Households
1	2.77	2.72
2	1.26	1.21
3	1.22	1.12
4	1.20	1.10
5	1.19	0.94
6	1.20	1.24
7	1.35	1.12
8	1.53	1.44
9	1.61	2.22
10	0.85	0.83
11	0.91	0.95
Total	1.45	1.39



1993-94

Un-Weighted & Weighted Average Zakat Incidence for Givers (as a proportion of Household Income)		
AE Income Groups	Un-Weighted Average Zakat Incidence for Givers for Households	Weighted Average Zakat Incidence for Givers for Households
1	1.76	1.80
2	1.03	1.06
3	1.07	1.00
4	1.08	1.04
5	1.45	1.61
6	1.78	1.39
7	1.21	1.22
8	0.79	0.75
9	2.02	2.43
10	1.53	1.68
11	1.10	1.02
Total	1.19	1.19



Source: Derived from the HIESs and Author's own calculations.

It may be assumed that the households in these income groups were underrepresented which the application of weights corrected for. Nonetheless, it is important to observe that the new peaks of the *zakat* incidence for these income groups reached by the application of weights do not alter the analysis of the burden of *zakat* incidence and neither do the total averages alter significantly. The results still show as in section 4.2 B that *zakat* incidence for the first two years of the 1990s reached its peak in the lowest income group. And that in 1993-94 when *zakat* incidence reached its peak in the ninth income group, it was only marginally higher than the *zakat* incidence for the lowest income group.

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