

# **HAJJ MANAGEMENT IN PAKISTAN IN THE LIGHT OF EXPERIENCE OF TABUNG HAJI OF MALAYSIA**



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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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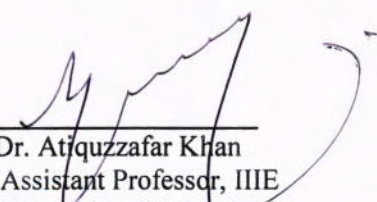
**Hajj Management in Pakistan in the Light of Experience of Tabung Haji of Malaysia**

by

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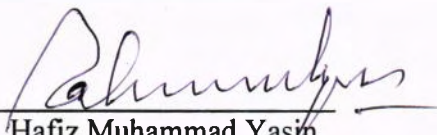
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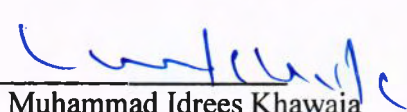
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**This Thesis is Dedicated to**

**My Parents,**

**My Source of Inspiration**

**for Higher Studies.**

## **STATEMENT OF DECLARATION**

I, Usman Baig, Registration No. 154-SE/MS-Eco2/F08, student of MS in Economics at International Islamic University Islamabad, do hereby declare that during the period of this study, I was not registered in any other course. The material used in the thesis entitled "Hajj Management in Pakistan in the Light of Experience of Tabung Haji of Malaysia" has not been submitted by me wholly or in part for any other academic award or qualification and shall not be submitted by me in future for obtaining any degree from this or any other university. I confirm that this thesis is the original work of the researcher except where otherwise acknowledged in the dissertation.

I also understand that if evidence of plagiarism is found in my thesis/dissertation at any stage, even after the award of a degree, the work may be cancelled and the degree revoked.

(Usman Baig)

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## Abstract

This paper examines the management of Hajj in Pakistan in the light of experience of *Tabung Haji* of Malaysia (most popularly known as TH). TH as an Islamic Financial Institution comes up with products that satisfy two fundamental human needs: Religious as well as financial. The successful experience of TH in Malaysia urged to bring a work to examine the factors responsible for its success and to draw lessons of experience for Pakistan.

The purpose of this study is to analyze the significance of economics of *Hajj* management and to suggest an institutional arrangement in Pakistan.

This study carries out a SWOT (Strength, Weaknesses, Opportunities and Threats) analysis to examine the internal and external factors accountable for TH's success. This study describes the structural arrangements and procedures adopted by TH. Organizational structure of TH will provide the detailed working and decision making body of TH. A comprehensive analysis will be done about the level of savings and the Hajj Cost in Pakistan over the last 10 years.

The study will be based on the secondary data. The data regarding income and savings of the households' in Pakistan is collected from various survey reports of the Household Integrated Economic Survey (HIES) compiled by the Pakistan Bureau of Statistical. To analyze the Hajj operations of Pakistan data is collected from the Ministry of Religious Affairs & Interfaith Harmony, Government of Pakistan. To describe the operations of TH yearly data on savings (deposits), investment, *Zakah* and Bonus payments are collected from various issues of annual reports of TH.

Households in Pakistan are facing great difficulty to save for the purpose of Hajj. Institutions based on the model of TH can motivate Muslims in other countries to increase savings with

institutional means for the purpose of Hajj. This kind of motivation is expected to enhance their participation in the development process via savings mobilization and capital accumulation.

This study will highlight the experience of an Islamic financial institution in the area of saving mobilization for investment of Hajj funds. Such socio-economic institutions will always be welcomed by the Muslim countries.



## TABLES OF CONTENTS

STATEMENT OF DECLARATION.....	I
ACKNOWLEDGEMENTS.....	II
ABSTRACT .....	III
LIST OF FIGURES .....	VIII
LIST OF TABLES.....	IX
LIST OF ABBREVIATIONS .....	XI
CHAPTER 1 .....	1
INTRODUCTION .....	1
1.1. OBJECTIVES OF THE STUDY .....	4
1.2. RESEARCH QUESTIONS .....	5
1.3. METHODOLOGY AND RETIONALE OF THE STUDY.....	5
1.4. SIGNIFICANCE OF THE STUDY .....	7
1.5. STRUCTURE OF THE STUDY .....	8
CHAPTER 2 .....	9
LITERATURE REVIEW .....	9
2.1. TABUNG HAJI OF MALAYSIA.....	10
2.2. SAVING INCOME RELATIONSHIP OF PAKISTAN.....	13



CHAPTER 3 .....	15
TABUNG HAJJI OF MALAYSIA .....	15
3.1 HISTORICAL BACKGROUND OF TH.....	16
3.1.1. OBJECTIVES OF TH .....	18
3.2. ORGANIZATIONAL STRUCTURE OF TH.....	19
3.2.1 EXECUTIVE LEADERSHIP OF TH.....	19
3.3. PERFORMANCE OF TH .....	21
3.3.1 SAVING SERVICES .....	22
3.3.2. INVESTMENT.....	27
3.3.3. HAJJ MANAGEMENT OF TH.....	39
3.3.4. HAJJ COST IN MALAYSIA.....	44
3.4. STRENGTHS, WEAKNESSES, OPPORTUNITIES & THREATS (SWOT) ANALYSIS OF TH .....	45
3.4.1 INTERNAL ANALYSIS OF TABUNG HAJI.....	46
3.4.2. EXTERNAL ANALYSIS OF TABUNG HAJI.....	48
CHAPTER 4 .....	52
CURRENT SITUATION OF HAJJ MANAGEMENT IN PAKISTAN .....	52
4.1. HAJJ MANAGEMENT .....	52
4.1.1. AN OVERVIEW OF THE HAJJ POLICY AND PLAN.....	54

4.2. COST OF HAJJ, INCOME AND SAVING RELATIONSHIP IN PAKISTAN...	58
4.2.1. COST OF HAJJ .....	58
4.2.2. SAVING, INCOME RELATIONSHIP IN PAKISTAN.....	60
4.2.3. CAUSES OF LOW SAVINGS .....	61
CHAPTER 5 .....	68
PROPOSED MODEL FOR HAJJ MANAGEMENT IN PAKISTAN .....	68
5.1. ORGANIZATIONAL STRUCTURE .....	69
5.2. SAVINGS AND INVESTMENT ACTIVITIES:.....	72
5.2.1. SAVING PROJECTIONS .....	74
5.2.2. SECP GUIDELINES FOR MODARABA BUSINESS.....	84
5.2.3 CRITICAL REVIEW OF MEEZAN LABBAIK.....	86
CHAPTER 6 .....	89
CONCLUSION & POLICY RECOMMENDATIONS .....	89
6.1 CONCLUSION .....	89
6.2 POLICY RECOMMENDATIONS .....	91
7. REFERENCES .....	93

## LIST OF FIGURES

Fig 3.1 Organizational chart of TH .....	20
Fig 3.2 TH's Activities .....	21
Fig 3.3 TH: Deposit Growth, 2004 – 2013 .....	24
Fig 3.4 Revenue of TH, 2004-13 .....	25
Fig 3.5 Net Assets of TH .....	27
Fig 3.6 Investment Approval Channel of TH .....	28
Fig 3.7 Profit of TH .....	35
Fig 3.8 Bonus, 2004-13 .....	37
Fig 3.9 Zakah, 2004-13 .....	39
Fig 4.1 Hajj Cost in Pakistan, 2004-2014 .....	59
Fig 4.2 Average Monthly Household Income by Quintiles (Rs) .....	63
Fig 4.3 Average Monthly Consumption Expenditure by Quintiles (Rs) .....	64
Fig 4.4 Consumer Price Index Growth .....	65
Fig 4.5 Average Monthly Savings by Quintiles (Rs) .....	66
Fig 5.1 Proposed Organizational Structure .....	70
Fig 5.2 Flow chart of steps to form a Modaraba Company .....	85

## LIST OF TABLES

Table 3.1	TH: Deposits Growth, 2004 – 2013 .....	23
Table 3.2,	Revenue of TH, 2004-13 .....	25
Table 3.3	Net Assets of TH, 2004-13 .....	26
Table 3.4	Profit of TH, 2004-13 .....	34
Table 3.5.	Bonus, 2004-13.....	36
Table 3.6	Zakah, 2004-13.....	38
Table 3.7	No. of Pilgrims from Malaysia, 2010-2014.....	43
Table 3.8	TH Hajj Cost, 2010-2014 .....	44
Table 4.1	No. of Pilgrims from Pakistan, 2007-2014.....	54
Table 4.2	Hajj Dues, 2007-2014.....	57
Table 4.3	Hajj Dues in Pakistan, 2007-2014 .....	58
Table 4.4	Population divided into Quintiles.....	62
Table 4.5	Average Monthly Household Income by Quintiles (Rs).....	63
Table 4.6	Average Monthly Consumption Expenditure by Quintiles (Rs) .....	64
Table 4.7	Consumer Price Index (CPI) Growth %.....	65
Table 4.8	Average Monthly Savings by Quintiles (Rs).....	66
Table 0.1	Sum of Hajj dues, 2007-2014.....	73
Table 5.2	ROE (Percent), 2010-2016.....	75

Table 5.3	Percent increase in Hajj dues, 2010-2016.....	76
Table 5.4	Saving Projection for one year.....	78
Table 5.5	Saving Projection consists of 2 years.....	79
Table 5.6	Saving Projection for 3 years.....	80
Table 5.7	Saving Projection for 4 years.....	81
Table 5.8	Saving Projection for 5 years.....	82

## **LIST OF ABBREVIATIONS**

<b>GOP:</b>	<b>Government of Pakistan</b>
<b>GHS:</b>	<b>Pakistan Government Hajj Scheme</b>
<b>HP&amp;P:</b>	<b>Pakistan Hajj Policy and Plan</b>
<b>HGOs:</b>	<b>Hajj Group Organizers in Pakistan</b>
<b>MORA &amp; IH:</b>	<b>Ministry of Religious Affairs and Interfaith Harmony</b>
<b>PKR</b>	<b>Pakistani Rupee</b>
<b>PHS:</b>	<b>Pakistan Private Hajj Scheme</b>
<b>RM</b>	<b>Malaysian Ringgit</b>
<b>SWOT</b>	<b>Strength, Weaknesses, Opportunities and Threats</b>
<b>TH:</b>	<b>Tabung Haji of Malaysia</b>

# CHAPTER 1

## INTRODUCTION

Islamic teachings take account of the socio-economic well-being and development of Muslims. The teachings of Islam may comprise three primary elements. The prime matter is *aqidah*, which concerns all forms of faith and belief by a Muslim in Allah and His will. The second is *Ibadat*, with the practicalities of his worship to Allah i.e. man-God relationship. The third is *muamalat*, which concerns behavior, attitude and work ethics with which a Muslim performs. *Muamalat* apply to practicalities of a Muslim's daily life, in the context of various forms of man-man relationship. A significant part of *muamalat* comprises the conduct of a Muslim's economic activities within his economic system.

Hajj, or the Pilgrimage to Mecca, is a kind of *ibadat*. Hajj is one of the pillars of Islam and one of its most important fundamentals, because the Prophet (peace and blessings of Allah be upon him) said:

"Islam is built on five (pillars): Testimony that none has the right to be worshipped but Allah and that Muhammad (SAW) is His Slave and Messenger,



establishing the *Salat*, paying the *Zakah*, pilgrimage to the (sacred) House and fasting (during the month of) *Ramadan*.<sup>1</sup>”

Hajj is obligatory upon every Muslim to make the pilgrimage to the holy city of Mecca at least once in his/her lifetime, if he/she can afford the journey and perform the rituals. As mentioned in the Holy Quran:

“As a right of Allah, it is obligatory on the people to perform Hajj of the House – on everyone who has the ability to manage (his) way to it.”<sup>2</sup>”

Hajj is compulsory only for those who can afford the expenses and are physically fit to undertake the long journeys they have to make. The word ‘afford’ is of prime importance because the pilgrimage to the holy city of Mecca is of considerable expense. The cost of pilgrimage in year 2014 from Pakistan is about Rs. 279,000 through Government Hajj Scheme. The individuals in public or private service or those who have their own business are facing great difficulty to save for the purpose of Hajj. Indeed, the saving scene in Pakistan is not ideal. Income is the most important variable which has a positive effect on household saving behavior in Pakistan (including rural and urban).

GOP has launched many schemes to increase the savings in Pakistan but couldn’t achieve the goals. Lower growth in savings is due to low level of income, people’s spendthrift nature and inappropriate execution of the policies. Saving and investment rates in Pakistan could not achieve significant growth in the past two to three decades and resulted in slow economic growth. Annual growth in inflation remains higher than annual

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<sup>1</sup> Sahih Muslim, Vol. 1, Book 2, Hadith 21

<sup>2</sup> Holy Qur’an, Surah 3, Verse 97



growth in GDP of Pakistan. So, it is difficult for lower and middle income people to save enough in their lifetime for pilgrimage.

Public sector employees get a gratuity fund (lump sum amount) as well as pension encashment after their retirement from service which enables them to afford the expenses of pilgrimage to the holy city of Mecca. Many People adopt traditional methods of savings like committees, to refrain their money from interest. But, savings with orthodox methods can't be mobilized for investment activities because these are a type of hoarding. This scenario further worsens the conditions of economic growth and development in the economy.

According to the current Hajj Policy of Pakistan (Hajj Policy and Plan-2014) people can arrange pilgrimage with GHS as well as with PHS, as 50% quota of pilgrims is allotted to the Hajj Group Organizers (HGOs). However, the cost of pilgrimage arrangement with HGOs is much higher as compared to the arrangements with GHS. Hence, we need a financial rearrangement if we want a better management of Hajj and to make it easy and accessible for people.

This problem can be solved by using the model of TH. Institutional arrangement following the TH model can motivate Muslims in other countries including Pakistan to increase savings for the purpose of Hajj and reduce hoarding. This motivation may be expected to increase their contribution in the development and economic progress through saving mobilization, investment and capital accumulation. TH as an '*Islamic Financial Institution*' came up with the products that can assure two primary human

needs both religious and financial. TH has to conform to Islamic doctrine and principles in all its transactions.

In 1990, TH was awarded the Islamic Development Bank (IDB) prize in Islamic banking. This prize is an international recognition of TH's success for efficiently and profitably mobilizing depositors' savings into Shari'ah compliant investments. Success of TH is also evident from the continuous growth of depositors since its foundation in 1963. Number of depositors has reached to 8.3 million with their accumulated funds of RM 45.7 billion in 2013. More than fifty percent of Malaysian Muslims were depositors with TH. Successful experience of TH can be replicated in other Muslim countries. So, it is necessary that we first investigate the factors responsible for TH's success and then we draw lessons from this experience for Pakistan.

## 1.1. OBJECTIVES OF THE STUDY

This study will highlight the functions and procedures adopted by TH in the field of savings mobilization and *Hajj* management. This study will identify the factors accountable for its success. We also try to share the lessons experience from its operation for Pakistan. The objectives of this can be:

- To analyze the significance of economics of Hajj management that lies in mobilization and efficient utilization of Hajj funds by institutional means.
- To suggest an institutional arrangement that will be helpful for the Muslims of Pakistan. In this way, they may save their money purposefully for Hajj.

## 1.2. RESEARCH QUESTIONS

The study will investigate the following research questions:

1. What are the internal and external factors responsible for TH success?
2. Is saving scenario of Pakistan suitable for households to save purposefully for Hajj?
3. How Hajj funds in Pakistan can be managed in a way that households can save for Hajj with ease.

## 1.3. METHODOLOGY AND RETIONALE OF THE STUDY

This study will take TH as a benchmark institution. The successful experience of TH can be replicated in other Islamic countries. It is necessary that we first analyze the factors responsible for its success and then we shall draw lessons from this experience for Pakistan. The study carries out a SWOT (Strength, Weaknesses, Opportunities and Threats) analysis to examine the internal and external factors responsible for TH's success.

This study will analyze descriptively the structural arrangements and procedures adopted by TH. Organizational structure of TH will provide the detailed working and decision making process. We will provide empirical evidence about the major functions (financial management and investment activities) of TH.

To analyze the operations of TH, yearly data on savings (deposits), investment, *Zakah* and Bonus payments is collected from various issues of annual reports of TH. The structural arrangements, functions, activities and procedures adopted by the TH are

derived from the official website of TH and the articles based on the seminar proceedings by the officials of TH.

The study will give insight on the income-saving relationship of households of Pakistan. Statistical data about household's income and consumption will be examined to estimate the level of saving of households. A big portion of household's income is consumed. Government schemes to increase the overall rate of saving in the country could not achieve the desired goals (Nasir & Khalid 2004). So, purposefully saving for Hajj is difficult in the current saving scenario in Pakistan. A comprehensive analysis will be done about the level of savings and the Hajj Cost in Pakistan over the last 10 years. This study will highlight the difficulties to perform Hajj in Pakistan because of low levels of saving and inflationary trends.

At the end the study will propose a model of an institution in Pakistan to replicate the activities, functions and procedures adopted by TH. Such an institution can motivate Muslims here to save purposefully for Hajj and participate in the economic growth of the country. Households will deposit their money. These deposits will be accumulated for investment in accordance with Shari'ah Principles through subsidiaries. Investment in real sectors through subsidiary companies will yield high rates of return. This will ease the household arrangements for Hajj.



## **DEFINING SWOT**

SWOT provides useful information which helps in synchronizing an organization's resources and capabilities with the external environment in which the organization operates. SWOT is an acronym of Strengths, Weaknesses, Opportunities and Threats. SWOT is a business analysis procedure. It analyzes the internal and external factors that affect the performance of an organization. Identification of the factors and their interdependence explain the steps needed to achieve the objectives.

Strengths & Weaknesses are considered internal attributes of an organization. An organization has some degree of control over these factors. Strengths are the factors that are favorable and helpful to the organizations for achieving their objectives. Weaknesses are those factors that are unfavorable and harmful to the organizations for achieving their goals. Opportunities & Threats of an organization are considered the external factors. Organizations have no measure of control over external environment. Opportunities as external environment attribute are favorable and helpful to the organizations to achieve their objectives. On the other side, threats are unfavorable and harmful factors that affect performance of organization.

### **1.4. SIGNIFICANCE OF THE STUDY**

- This study will describe the experience of TH in the area of Hajj management which is valuable to follow in other Islamic countries.

- This study will project savings purposefully for Hajj. It will motivate to set up an institution in Pakistan.
- This study will suggest a model about the Hajj Management of Pakistan.
- This study will also mention the ways as to how Hajj funds can be utilized efficiently by institutional means.

## **1.5. STRUCTURE OF THE STUDY**

Structure of the study follows the sequence:

**CHAPTER 2: LITERATURE REVIEW**

**CHAPTER3: TABUNG HAJI OF MALAYSIA**

**CHAPTER 4: CURRENT SITUATION OF HAJJ MANAGEMENT IN PAKISTAN**

**CHAPTER 5: PROPOSED MODEL FOR HAJJ MANAGEMENT IN PAKISTAN**

**CHAPTER 6: CONCLUSION & POLICY RECOMMENDATIONS**

## CHAPTER 2

### LITERATURE REVIEW

Articles regarding the current research topic which were investigated during literature survey can be classified into two categories. Some research articles and books explain the details of TH working. But, these are very few in number due to which we concentrate on annual published reports of TH from 2007 to 2013. Some of the research papers highlight the experience of TH in the field of Islamic banking and finance while analyzing the experiences of other Islamic Banks and Islamic Financial Institutions of Malaysia. No research work has done regarding Hajj management of Pakistan. There are some articles consisting of the saving-income scenario of Pakistan. These two kinds of articles are discussed below:

The pilgrimage to Mecca is one of the five pillars of Islam and is obligatory for those who have sufficient financial means. Many pilgrims describe it as the most significant religious event in their lives (David et al., 2009). Yamin (2008) stated that Hajj is a unique gathering of its kind and poses a challenge to its organizers. Hajj management is a very complex task. In order to improve the Hajj management, there are many aspects which present opportunities for an in-depth study and research.

The process of strategic management involves formulation, implementation and evaluation of strategic choices and actions that should be

competitive, sustainable and profitable. The Hajj activities contribute to *Tawhidic* (monotheistic) paradigm in strategic management through the Hajj pilgrimage (Sarif, 2015).

## **2.1. TABUNG HAJI OF MALAYSIA**

Tabung Haji (1987), the book presents the functions, activities and operations of TH, a unique institution in the world, catering for the needs of Malaysian Muslims performing Hajj. It gives a success story in the area.

IRTI (1995) after giving the brief introduction highlights the history and objectives of the TH. It provides the savings and investment procedure devised by TH for the operation of fund. It also gives the comprehensive account of the services that it provides to the pilgrims both before embarking on the pilgrimage journey as well as during and after the Hajj rituals.

Ausaf Ahmad (1995) traces the evolution of the concept and practices of Islamic Banking in the third section of his article. TH is a unique financial institution which is generally not mentioned in the discussions of Islamic Banking but its significance, importance and uniqueness demands it. TH is a good example of how a specialized financial institution could work successfully in accordance with the Islamic principle.

He mainly concentrates on the financial institutions in different parts of the world in his paper. Non-banking financial institutions are required to satisfy the financial needs which are not satisfied by the commercial banks and specialized banks. Among the existing institutions, TH is a good example of non-banking Islamic financial institution.



Abdul Mannan (1996) has presented the example of TH and urged the Muslim countries to adopt the same. In first, he has used the experience of TH to infer and to conclude that Hajj can be used as a forum to enhance social and economic co-operation among the Islamic countries. He also stated that in Malaysia the political will and determination level of the people has played an important role in the success of TH. The rest of the Muslim countries are still under the influence of colonial powers. If the Islamic countries get rid of this influence they can replicate the experience of TH.

Ausaf Ahmad (1997) highlights TH's experience in brief as an important precursor of Islamic financial institutions in Malaysia. Although TH is not a bank in the traditional sense of the term, it works very much the same way as a specialized Islamic bank would. It performs two important banking functions i.e. accepting the deposits and making investments.

Encik Azhar (2000) discussed the Islamic view of life and the place of economic activities within this framework at first. Shari'ah as the practical aspect of a Muslim's daily life is divided into two: *Ibadat* and *Muamlat*. TH is an economic activity different from other *Muamlat* institutions in that it is also indirectly linked to *Ibadat* aspect of Shari'ah. According to the author, one of the main reasons of the TH's regular inflow of pilgrim's deposits each year is its almost monopolistic position in pilgrim's management. TH has incorporated its own 14 subsidiary companies. These can be grouped into three main sectors, i.e. plantation, project management and services. TH allocates more of its funds to the short term money market.

Joni Tamkin (2001) critically examines the establishment and operations of The Pilgrims' Management and Fund Board of Malaysia (TH) as the mobilize of the savings of Muslims in Malaysia and investor of these savings in profitable investments in accordance with the principles of Islamic Commercial Law. This article only focuses on TH's operation from 1969 to 1990, after more than two decades of its establishment and operations. The writer concludes that the success of TH depends on political stability, economic growth and visionary leadership, and more importantly following the Shari'ah principles in its operations.

Muhammad Akram (2008) in his paper elaborates the experience of TH in developing the Islamic financial system by explaining different developments and methods that have been deployed since its inception in 1963 until now and how best this experience can be used in developing Islamic financial industry. He also found that the Malaysian model in developing Islamic financial industry can be taken as a benchmark in the development of such industry in other countries.

Mokhtar et al., (2008) discussed the competition of Islamic Banking in Malaysia in their article. They are of the view that TH is a specialized financial institution that provides a systematic mobilization of funds from Muslims to assist them to perform pilgrimage to Mecca as well as to encourage them to participate in investment opportunities and economic activities. In fact, due to its uniqueness, TH is considered to be the first of its kind in the world.

Ishak (2011) highlights TH as role model of an IFI for economic development in Malaysia. He analyzes the business activities and financial performance of TH to show

that it is a suitable business entity for sustainable economic development. The financial performance of TH from 2007 to 2009 indicates that TH is a sound financial corporate entity. It has presented a fortified relationship between Islam and economy through the institution of Hajj.

Ahmad et al., (2012) stated that TH is a unique organization in the Muslim world. It enjoys a monopoly position in the field of Hajj management in Malaysia. TH is backed but not managed directly by the Malaysian government. TH has evolved efficient and participatory models for internal management, using contemporary marketing techniques and applying state-of-the-art technology. TH business model has not yet been replicated elsewhere in the Muslim world despite its apparent success.

## **2.2. SAVING INCOME RELATIONSHIP OF PAKISTAN**

A. Burney and H. Khan (1992) analyzed household savings behavior because of its overwhelming dominance in total savings, in Pakistan. Household sector accounts for a large amount of the total savings in developing countries. In Pakistan, during the last three decades, the household sector has accounted for about 83 % of the total savings.

Ahmad and Asghar (2004) discussed that in any country, domestic savings contribute in the economic growth and stability through investment. Income is the key determinant and most important variable that affects positively household savings in Pakistan (including rural households and urban households). But, more savings are not possible in Pakistan because the household saving scenario, in fact, is not ideal.

Nasir & Khalid (2004) estimated the saving function for Pakistan. GOP had launched many schemes to increase savings rate in the economy, but, couldn't achieve the required level. He highlighted many reasons of failure. People usually have low level of income and also they demonstrate spendthrift nature. One major reason would be the inappropriate implementation of the policies. The savings growth in Pakistan remained low. As a result investment couldn't accomplish significant growth during the last two to three decades. It resulted in slow economic growth in Pakistan.

Farhan and Akram (2011) estimated that income was highly significant with saving level and possessed a positive relationship in case of Pakistan. Proper policies must be implemented to improve the rate of economic growth in the country. This growth will help to raise the per capita income of the people. It will further help in achieving the desired savings level in the country.

### **Contribution of the Study**

This study provides an overview of the TH annual reports from 2004 to 2013. We cannot find a single research article about Hajj management of Pakistan. This study describes the Hajj management of Pakistan by over viewing of Hajj Policy and Plan from 2007 to 2014. This study also projects savings for 1 to 5 years.



## CHAPTER 3

### TABUNG HAJJI OF MALAYSIA

TH is the premier Islamic financial institution in Malaysia. Established in 1963, TH has 51 years of experience in Hajj management, saving services and investments. TH celebrated its 50<sup>th</sup> Golden Jubilee Anniversary in 2013. The Islamic Development Bank considered the significance of TH as an 'Islamic Financial Institution' and awarded it the IDB prize in Islamic banking for the year 1410H (1995). TH has mobilized savings of Malaysian Muslims and successfully operated an investment fund in an Islamic way in order to fulfil the lifelong desire of many individuals for the performance of Hajj rituals. Governor Central Bank of Malaysia, Tan Sri Dato' Jaffar bin Hussein, delivered a speech at the University of Science Malaysia on the 9<sup>th</sup> of March 1990. He stated that:

*The differences between the Islamic and the conventional financial systems are those of philosophy and ethics. The Islamic financial system is based on Islamic principles and philosophy, whereby the system itself is an integral part of Islam. On the other hand, the conventional financial system is based on capitalism which separates religion from economic activities in everyday life. It also stresses the individual's total freedom and bases financial decisions on bottom – line considerations. Individuals, being the owners of their property have the right and freedom to do whatever they like with their property. This principle is based on the individual's interest as a goal, competition as a method and freedom as a condition.*

*Meanwhile, in the Islamic financial system, men are ordained as Allah's representatives (Khalifah) who act as trustees. They do not have absolute ownership of their property. Therefore, transactions in the Islamic financial system cannot be based on bottom – line considerations. Individuals and companies in this system must operate in accordance with*

*Islamic laws instead of individual interest. However, Islam does not' prohibit profit making as long as it is in the interest of the public.<sup>3</sup>*

### 3.1 HISTORICAL BACKGROUND OF TH

In line with the concept of Islam as “*Deen*”, a complete system or way of life for this world, everything that has been commanded by Allah (SWT) is to benefit mankind here and in hereafter. With such belief and strong determination, the Muslims have been inspired to gather wealth to finance their journey to the Holy Land and to perform their pilgrimage (Hajj).

To refrain them from involving elements of interest (an illegal practice in Islam) the Malaysian Muslims in the past had resorted to various traditional means of saving and keeping their money for the sacred journey. There were people who sold their livestock, properties and inheritance to arrange sufficient fund for their pilgrimage. Such practices caused negative financial and social implications on them and their families during and after their pilgrimage. In addition, their practicabled to damaging the rural economic structure and threatening the national economic growth.

Professor Ungku Abdul Aziz of the University of Malaya wrote a working paper in 1959. The title of his paper was “A Plan to Improve the Economic Position of Prospective Pilgrims”. He observed that Muslims in Malaysia save their money to meet expenses of pilgrimage to the Holy Land by using traditional methods. Their only desire was just that their money should be completely *Riba* free. In his article, he mentioned

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<sup>3</sup> IRTI (1995) *Tabung Haji as an Islamic Financial Institution: The Mobilization of Investment Resources in an Islamic way and the Management of Hajj*, Jeddah: IDB Press, pp. 13.

some of the orthodox methods of savings i.e. save in pillows, in cupboards, under floors and mattresses, etc. Savings in banks or financial institutions necessarily involved interest at that time till the establishment of Bank Islam Malaysia, first full fledged Islamic Bank, which was established in 1983. His study pointed out that these kinds of traditional methods of saving would be detrimental to economic development.

In 1959, Professor Abdul Aziz submitted a number of recommendations to the Government, the most important proposal was to provide institutional cover to future pilgrims in which they can participate in various *Shari'ah* guided investment activities and out of which profit can be paid to them. This would help them financially in pursuing expenses for Hajj in a well-organized way. In 1962, *Sheikh Mahmoud al-Shaltut*, Rector of *Al-Azhar* University, Cairo visited Malaysia. After studying the paper, he approved the proposal of Professor Abdul Aziz stating that the plan was according to Islamic values and it would be beneficial for the Muslims in Malaysia. He urged the government to implement this plan immediately.

The scenario became a driving force for the government to draw up a scheme that could help Malaysian Muslims to save gradually for their pilgrimage. The effort saw the birth of the Pilgrims Fund Corporation that was established in November 1962 and commenced operation on September 30, 1963 (IRTI, 1995). Within one year of its operation, it was able to collect a total deposit of \$49.60 from 1,281 depositors. The deposits were growing steadily and within three years (i.e., by 1966), the corporation had achieved the break-even position and paid a dividend of 3% (Encik Azhar, 2000). The corporation was receiving the attention of the people and government. The Pilgrimage

Fund, or Tabung Haji of Malaysia (TH), was established in 1969 through an Act of the Parliament.

### 3.1.1. OBJECTIVES OF TH

The TH Board has been set up to accomplish the following objectives (IRTI, 1995):

- ❖ To assist Malaysian Muslims to save step by step. In this way, they can support their pilgrimage expenditures.
- ❖ To enable Malaysian Muslims to participate actively and efficiently in Shari'ah guided investment modes through their deposits.
- ❖ To protect the interests of pilgrims and ensure their welfare by providing facilities and services during their pilgrimage.

As a professional and responsible corporate organisation, TH has never failed to keep abreast with development domestically and internationally to maintain its competitive edge. A study to strengthen its position in the international platform and to expand its scope was conducted in 1995. As a result of this study a new act was introduced, the Pilgrimage Board Act 1995 implemented from June 1, 1995. Enforcement of this new act has automatically abolished the previous act. The name 'Pilgrimage Management and Fund Board' has been changed to Pilgrimage Board (better known as Lembaga Tabung Haji) effective from August 28, 1997. A more corporate-looking abbreviation, TH, was introduced.

The fundamental concept behind TH's establishment was to enable Muslims to save for pilgrimage without any fear of their money being tainted by *riba*. TH has been



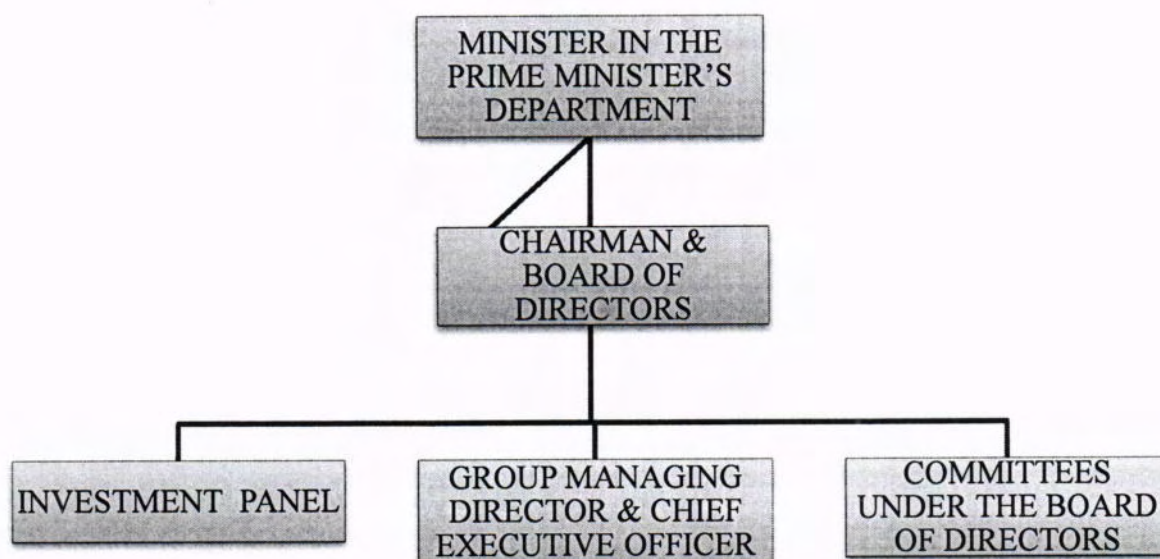
encouraging Malaysian Muslims to save not only for the purpose of Hajj but also for investment purpose to earn profit out of their savings.

### **3.2. ORGANIZATIONAL STRUCTURE OF TH**

TH is a semi-government body under the Prime Minister's Department. Its organizational structure reflects a fully autonomous body which is able to exercise its statutory powers and executive policies for the benefits of its depositors (Joni Tamkin, 2001).

#### **3.2.1 EXECUTIVE LEADERSHIP OF TH**

The Board of Directors has been bestowed upon the power under Tabung Haji Act 1995 (Act 535) to administer the fund and all matters concerning the pilgrims' welfare. The Board comprises a chairman, a representative of the Prime Minister's Department, a group managing director and chief executive officer, a representative of the Treasury and 6 other members.



**Fig 3.1 Organizational chart of TH**

The Board of Directors also formulates policies and implements all matters related to the pilgrims' welfare. Investment advisory panel advises the board possible investment opportunities in the country. TH has formulated the following nine committees<sup>4</sup>.

- Audit Committee
- Risk Management Committee
- Tender Board
- Hajj Affairs Committee
- Service Committee
- Disciplinary Committee

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<sup>4</sup> *Tabung Haji*. (2015, September). Retrieved September 2, 2015, from Tabung Haji Web site: <http://www.tabung haji.gov.my/>

- Disciplinary Appeal Committee
- Hajj Advisory Council
- *Ibadah Haji* Advisory Committee

These committees are responsible to monitor activities of TH assigned. They put forward their reports about their concern departments. Chairman along with board of directors consider their proposals and recommendations before taking decisions.

3.3. PERFORMANCE OF TH

FUNCTIONS OF TH

TH encourages Malay Muslims to save not only for Hajj but also for investment purposes. In this way they can earn profit out of their savings. TH’s main functions include depository, investment and pilgrimage management. Depository function is to provide *riba* free saving services to Malaysian citizens. Investment functions carry out investment of accumulated funds and monitoring of investment activities. Pilgrimage management includes Hajj services in Malaysia and in Saudi Arabia.

TH’s main activities are classified into following three categories:	
● Depository	Provides saving services to Malaysian citizens
● Investment	Investment of collected funds and monitoring of investment activities
● Pilgrimage	Hajj management in Malaysia and at the Saudi Arabia

Fig 3.2 TH’s Activities

### 3.3.1 SAVING SERVICES

#### MOBILIZATION OF DEPOSITS

TH as an institution started its operations on the modest scale, with only 1,281 depositors and a total of RM 46,600 (USD 12,000) deposits. TH has now grown into a big corporate body embodying 8.3 million depositors with accumulated deposits of RM 45.7 billion. Mainly membership of TH is limited to the Muslims of Malaysia having desire to perform Hajj but non-Muslims also maintain accounts with TH for investment purpose only.

TH follows the Shari'ah Principle of *wadiah al wakalah*<sup>5</sup>, in order to utilize the funds of depositors. Here depositors give consent to TH to use their deposits for investment purposes. Profits derived from the investment are then distributed among depositors in the form of Bonus after the payment of Zakah. Abdul Mannan (1996) highlights that in order to attract the savings, TH has made all possible efforts to simplify the saving procedure and expanding its retail collection network to ensure easy accessibility to deposit source. TH allows the deduction of salary of employees from both public and private sectors.

In order to ensure a steady growth for new depositors and deposits, TH, yearly, sets a target expected from its branch offices. Deposits are collected through 13 TH collection agents. TH achieved the "*Pelan 50*" target in 2012, which was "*a plan to sign*

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<sup>5</sup> Shari'ah principle of Wadiah al-Wakalah al-Mutlaqa, in which depositors give consent to TH to manage their deposits for investment.

up 50% of the Muslim population in the country as TH depositors”<sup>6</sup> launched in 2008. At the end of 2013, the total depositors were 8.3 million, 52% of the Muslim population in Malaysia.

GROWTH OF DEPOSITS

TH accumulated a total of RM 45,719 million worth of deposits in 2013. Depositors’ fund was increased by 19% from RM 38,284 million in 2012. Table 3.1 and Fig 3.3, below, provides data relating to annual deposits received and growth in annual deposits for the period 2004 to 2013. Growth in deposits shows an increasing trend. Table shows that since 2004, Depositor’s fund of TH has increased more than 3-folds. This fact reflects that due to its notable achievement, TH has succeeded in consolidating its position as steadfast and trustworthy institution among stakeholders.

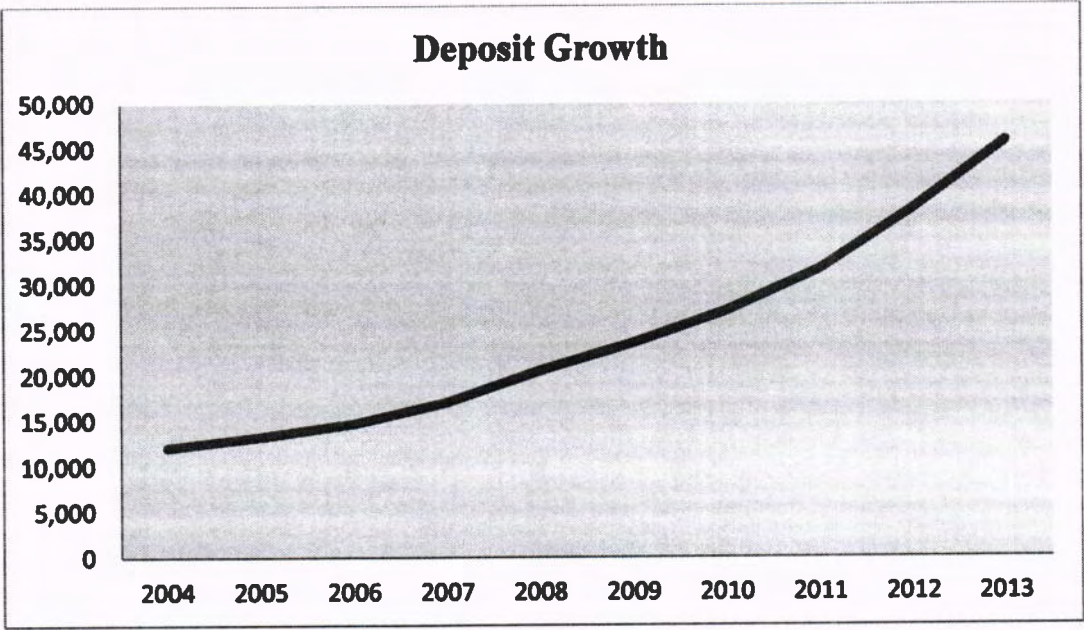
Table 3.1 TH: Deposits Growth, 2004 – 2013

Year	Deposits Received (RM Million)
2004	12,085
2005	13,319
2006	14,743
2007	17,083
2008	20,576
2009	23,590
2010	27,115
2011	31,694
2012	38,284
2013	45,719

Source: Compiled from Annual Reports of Lembaga Tabung Haji 2006-2013

<sup>6</sup> Tabung Haji, Annual report 2012.





**Fig 3.3 TH: Deposit Growth, 2004 – 2013**

**REVENUE**

First time since TH started, total revenues of TH exceeded the RM 3 billion mark. It reached RM 3730 million in 2013 showing an increase of 32%, as compared to RM 2832 million in 2012. In 2012 TH’s total revenue increased by 27%, compared to RM 2176 million in 2011.



Table 3.2, Revenue of TH, 2004-13

Year	Revenue (RM Million)
2004	950
2005	1015
2006	1165
2007	1857
2008	1513
2009	1752
2010	2056
2011	2176
2012	2832
2013	3730

Source: Compiled from Annual Reports of Lembaga Tabung Haji 2006-2013

Table 3.2, above, and Fig 3.4, below, TH recorded its highest income in 2010, of more than RM 2 billion for the first time.

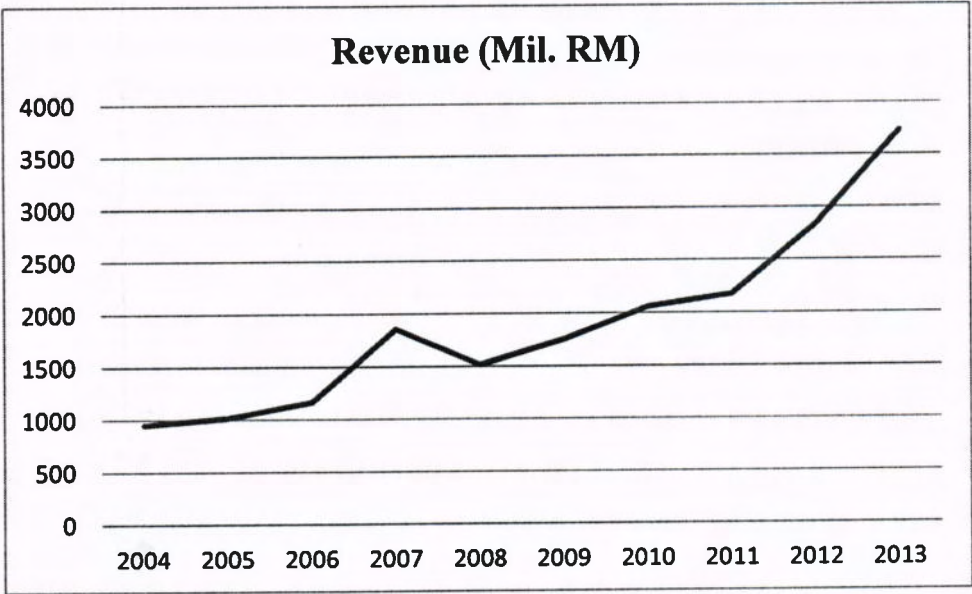


Fig 3.4 Revenue of TH, 2004-13

## ASSETS

TH assets are on increase. Net Assets of TH were worth RM 48,169 million in 2013.

**Table 3.3 Net Assets of TH, 2004-13**

Year	Net Assets (RM Million)
2004	12,426
2005	13,688
2006	15,119
2007	17,562
2008	21,204
2009	24,275
2010	28,289
2011	32,036
2012	40,125
2013	48,169

Source: Compiled from Annual Reports of TH (2006-2013)

As Table 3.3 and Fig 3.5 above shows that TH experienced increasing trend in the asset growth. Annual growth in the net assets is relatively high, i.e. 10% in 2004-05 and 16% in 2007. TH experienced a decline in the annual asset growth, from 20% in 2008 to 14% in 2010 and 13% in 2011. In fact the growth is remarkably high, i.e. 25% in 2012.

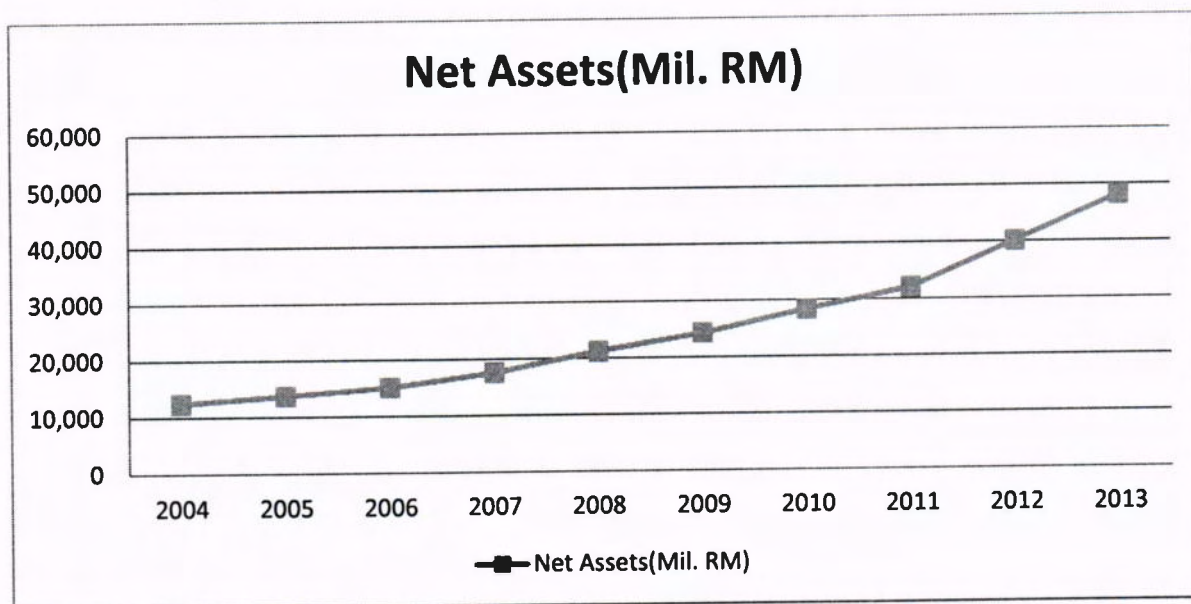


Fig 3.5 Net Assets of TH

### 3.3.2. INVESTMENT

With well-organized Hajj management and deposit services, TH also succeeded to generate reasonable returns on their investments. Returns are then distributed among the depositors in the form of bonuses. TH exercises extreme level of prudence in its investment activities and ventures. Decisions are only made after massive groundwork and extensive deliberations to make sure that each investment activity will bring handsome returns. Investment Panel, an investment advisory committee, was set up based on TH's act. Investment Panel consists of Shari'ah Law experts & distinguished business professionals. Its purpose is to advise the Investment Board about viable investment proposals prior to submit to the Minister for final approval. Investment Panel also advises the Management of TH to increase TH's investment and to guarantee competitive returns.

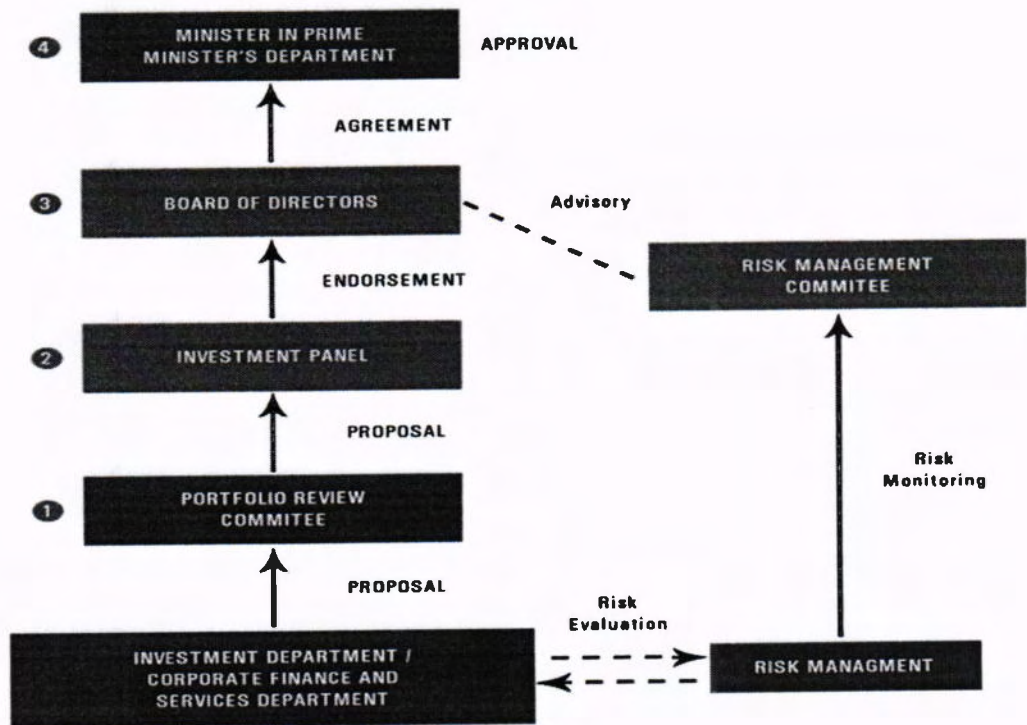


Fig 3.6 Investment Approval Channel of TH

Fig. 3.6 above highlights the investment procedure of TH that every investment proposal needs approval of the Risk Management Division, Portfolio Review Committee and after review of Investment Panel, presented to the Board of Directors for approval initially. The Minister will receive the proposed investment activities for final approval.

Investment activities of TH are conducted according to Islamic principles. TH uses *Mudaraba* and *Musharaka* as investment modes. To make sure that investment activities of TH are according to Shari'ah rules, each investment activity is supervised by the National Fatwa Council of Malaysia and the Religious Supervisory Council of Bank Islam Malaysia Berhad.

Like deposit growth, TH also maintained a steady growth in its investment activities. TH has diversified and increased its investment activities in the plantation, project management, services, industry, commercial sector, real estate and other profitable ventures through equity participation in public listed and non-public listed companies, joint-venture projects and privatization projects, all strictly in keeping with Islamic tenets. Equity investment accounts 58% of total revenue.

## **TYPES OF INVESTMENT**

TH invests in various sectors. We can classify TH's investment into following three categories:

### **INVESTMENT IN EQUITIES**

The objectives behind TH's investment in listed equities are to make competitive returns at acceptable risk levels. Investment in equities represents the biggest portion of TH's investment portfolio at 53% in 2013. TH invests in the following both kinds of equities:

- Investment in domestic equities
- Investment in foreign equities

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## **INVESTMENT IN ISLAMIC FINANCIAL INSTRUMENTS**

TH involves in the Islamic finance sector through its own subsidiary company BIMB Holdings Berhad (BHB). BHB invests in Shari'ah guided entities, i.e. Islamic banking, *takaful* and stockbroking.

## **INVESTMENT IN SERVICES SECTOR**

Service sector investment areas of TH includes information technology and marine support for the Oil and Gas industry,

## **INVESTMENT THROUGH SUBSIDIARIES**

Investment strategy through subsidiaries is indication of TH determination to attain business growth in identified Shari'ah compliant sectors. TH's investment in subsidiaries and participation in joint ventures cover various sectors. Emphasis is given to the plantation, Islamic finance, real estate development, information technology and services sector. Investments in these sectors through subsidiaries are continuously monitored to ensure competitive returns. TH has established wholly owned companies where it participates actively in the management. TH has owned 14 subsidiary companies. Investment in Islamic banking and finance is a kind of joint venture with reputed Islamic banks of Malaysia. Subsidiaries of TH are as follows:

## ISLAMIC BANKING & FINANCE SECTOR

BIMB Holdings Berhad (BHB) was established on 20<sup>th</sup> March, 1997. TH invests in Islamic Finance Sector through BHB. For those who want to invest in Shari'ah guided business entities i.e., Islamic banking, stock-broking and *takaful*, BHB operates as an investment holding company in Malaysia.

TH participates in Islamic banking through Bank Islam Malaysia Berhad. Bank Islam continues to provide innovative and sophisticated products and services in the field of Islamic Banking. Takaful Malaysia is the Malaysian's pioneer *takaful* operator. TH participates in *takaful* investment activity through Syarikat Takaful Malaysia Berhad. TH group's total assets of RM 7 billion are invested with Takaful Malaysia since 2013.

TH also joins BIMB Securities to invest in stock-broking. BIMB provides an opportunity to invest in shares of those companies whose business activities are Shari'ah compliant and are listed on Bursa Malaysia Exchange. Shari'ah Advisory Council of the Securities Commission of Malaysia has issued the list Shari'ah Compliant Securities.

## PLANTATION SECTOR

TH invests in the plantation sector through various wholly-owned and jointly controlled subsidiaries. These subsidiaries collectively formulate TH Group. TH Plantations Berhad is wholly-owned subsidiary company established to invest in plantation sector. Plantation sector investments are in palm oil and rubber plantations in Malaysia and Indonesia. The plantation sector is one of the sectors yielding high returns.

Palm oil investment gains competitive and high returns, so, investment in this sector ensures stable returns to the depositors.

## **PROPERTIES AND CONSTRUCTION SECTOR**

TH invests in the properties, construction and real estate sectors through its wholly-owned subsidiary companies, TH Properties Sdn Bhd and TH Estates (Holdings) Sdn Bhd. Investing in real estate and construction sector strengthens TH's position in Malaysia. Total revenue of RM 267.4 million and profit before Zakah RM 62 million was recorded in 2013. TH hotels and Hajj Complex are constructed in different cities of Malaysia. Hajj operations are conducted in Hajj Complex.

## **HOSPITALITY AND SERVICES SECTOR**

TH Hotel & Residence Sdn Bhd (THHR) is wholly-owned subsidiary company of TH which invests in the hospitality and services sector, both at national and international levels. THHR also manages three subsidiaries providing travel & tourism, *halal* food and real estate services.

## **HALAL FOOD INDUSTRY**

THHR has 100% possession of a subsidiary TH Global Services Sdn Bhd (THGS). THGS participate in *Halal* Food Industry of Malaysia by trading and distributing *halal* and *tayyib* food and beverages. THGS, through partnership with a

Saudi Arabian catering company, provides meals catering to more than 25,000 Malaysian Pilgrims every year.

## **TRAVEL AND TOURISM**

TH Travel & Services Sdn Bhd (THTS) is another wholly-owned subsidiary company of TH. It provides travel & tourism services to the Muslim *ummah*. Services include travel packages, Hajj and Umrah packages, ticketing etc. It handles various services for TH Malaysian pilgrims with coordination of aircraft charter to the Saudi Arabia.

## **INFORMATION TECHNOLOGY**

TH has established another wholly-owned subsidiary company Theta Edge Berhad in 1984 to provide services in communications and information technology industry. It was listed on 1<sup>st</sup> of November 1999 on the Main Board Bursa Malaysia.

## **MARINE SUPPORT SERVICES**

TH Heavy Engineering Berhad (THHE), another wholly-owned subsidiary of TH, which provides marine support services to the Oil and Gas industry. Its investment activities are concentrated on the heavy engineering industry.

**PROFIT & BONUS**

The profit gained from the use of the depositors’ fund is distributed among the depositors after the Zakah deduction from profit, in the form of a bonus. TH has shown remarkable growth in profits over the years. Net profit (after the payment of Zakah and tax) for the year 2013 was RM 2634 million. Table 3.4 and fig 3.7 below, shows that the profit earned in 2012 was RM 2146 million as compared to RM 1689 million in 2011, with 24% increase.

**Table 3.4 Profit of TH, 2004-13**

Year	Profit (RM Million)
2004	500
2005	576
2006	641
2007	1071
2008	1001
2009	1120
2010	1497
2011	1689
2012	2146
2013	2634

Source: Compiled from TH Annual Reports (2006-2013)

In a row, TH’s net profit exceeded the RM 2 billion mark, for the second time. The profit growth was negative in 2008 to RM 1001 million from RM 1071 million in 2007. For the first time in 2007, TH gained net profit of RM 1 billion.



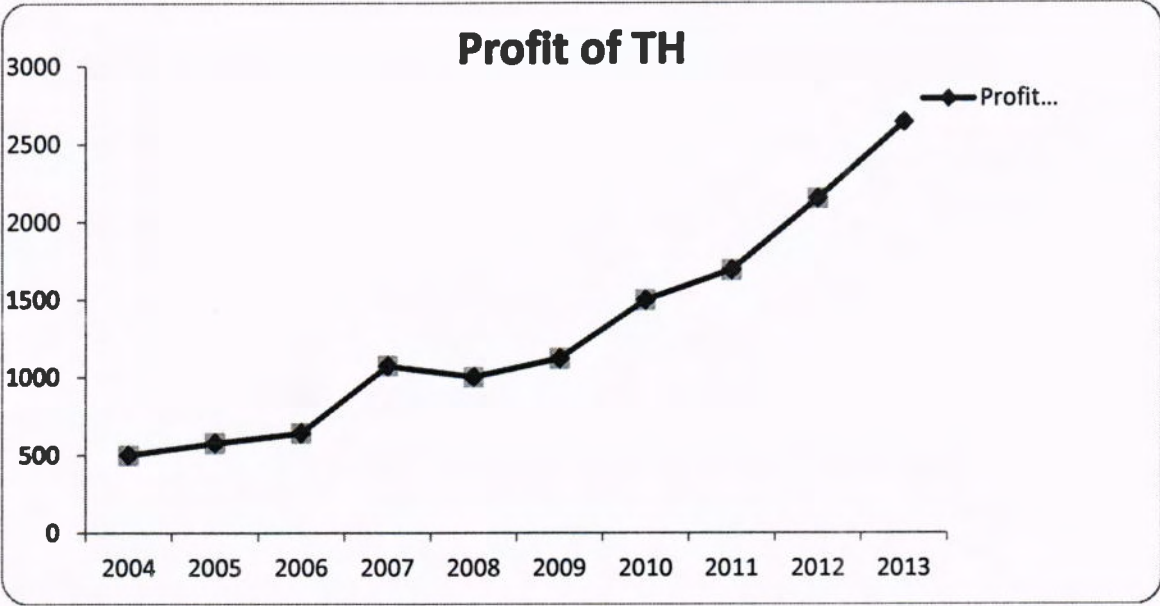


Fig 3.7 Profit of TH

A large portion of TH net profits is distributed to depositors in the form of bonuses. Bonuses paid to the depositors are based on the principle of profit sharing which differentiates the bonus from the concept of *riba*. Thus, the bonus is only paid if TH makes profit. When TH earns high profits, the rate of bonus will be high, and vice versa. Figure, above, shows that TH has earned healthy profits in the recent years which enable it to pay competitive bonus to its depositors.

*It is significant to note that in 1966, within only 3 years of its inception, Tabung Haji was able to pay a 3% bonus to its depositors. Since then there has been never a year without bonus.<sup>7</sup>*

Table 3.5 & fig 3.8, below, shows that annual rate of bonus varies from 4 to 8 percent during 2004 to 2013. These bonus rates are significant because these are not of another 2.5 percent payment of Zakah which is paid by TH on behalf of its depositors. The annual bonus rates were 6.5% and 6% in 2012 and 2013 respectively. In honor of its 50<sup>th</sup> Golden Jubilee Celebrations TH announced 1.5% special bonus to depositors in 2012. Total amount of TH Golden Jubilee bonus was RM 2458.

**Table 3. 5 Bonus, 2004-13**

Year	Bonus (RM Million)	Bonus (%)
2004	482	5.00%
2005	548	4.50%
2006	634	4.75%
2007	1051	7.00%
2008	900	5.00%
2009	1067	5.00%
2010	1332	5.50%
2011	1678	6.00%
2012	2458	8.00%
2013	2632	8.00%

Source: Compile from Annual Reports of TH 2006-2013

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<sup>7</sup> Nayan, Encik Azhar (2000) *Towards Islamic Banking - Experiences and Challenges: A Case Study of Pilgrims Management & Fund Board, Malaysia*, Islamabad: Institute of Policy Studies, pp. 54.

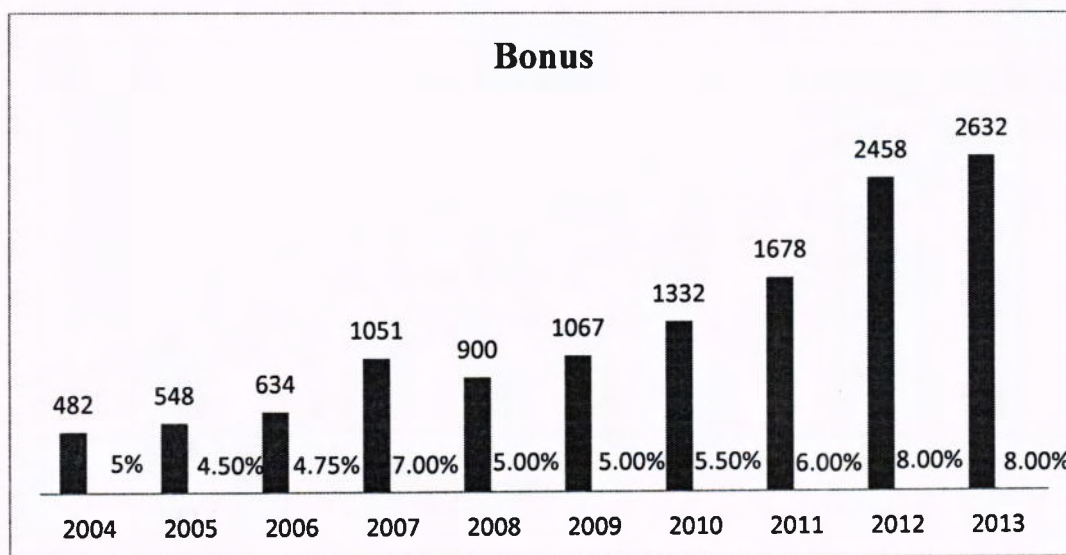


Fig 3.8 Bonus, 2004-13

In 2011 the total amount of bonus paid out was RM 1678. Annual bonus rate increased 47% in 2012. It was the highest bonus payout since TH had started. A special Hajj bonus of 2% was paid to TH depositors, who have not performed their Hajj yet. The increasing trend shows that TH has maintained a steady rate of return.

## ZAKAH

TH as an Islamic financial institution, before distribution of bonus to its depositors, pays *Zakah* from the profits earned during the year and the amount of working capital at the end of the *Zakah* financial year (*Hijrah*). The given rate of *Zakah* is 2.5% on the profits earned during the year and the amount of operational capital at the end of *Zakah* financial year (*Hijrah*). TH pays *Zakah* on behalf of depositors. TH uses the Islamic principle of *aqad izin*. It means depositors' consent. According to this principle

depositors are considered as a fund giver to TH for the investment activities. TH gives the Zakah fund to the Islamic Religious Department through all State Zakah Collection Centers. The Islamic Religious Department redistributes the Zakah fund to the eligible beneficiaries.

Table 3.6 & fig 3.9, below, shows the amount of Zakah fund paid by the TH has increased significantly, i.e. from RM 31 million in 2004 to RM 53 million in 2013. This Zakah payment is used to help poor and needy Muslims in Malaysia. It also provides a sufficient fund to carry out many economic projects helpful to improve the social and economic conditions of people. TH has made a contribution to the social and economic development of Malaysia by increasing payment of Zakah each year.

**Table 3.6 Zakah, 2004-13**

Year	Zakah (RM Million)
2004	31
2005	21
2006	27
2007	37
2008	38
2009	39
2010	41
2011	44.2
2012	47.1
2013	53

Source: Compiled from TH Annual Reports, 2006-2013.

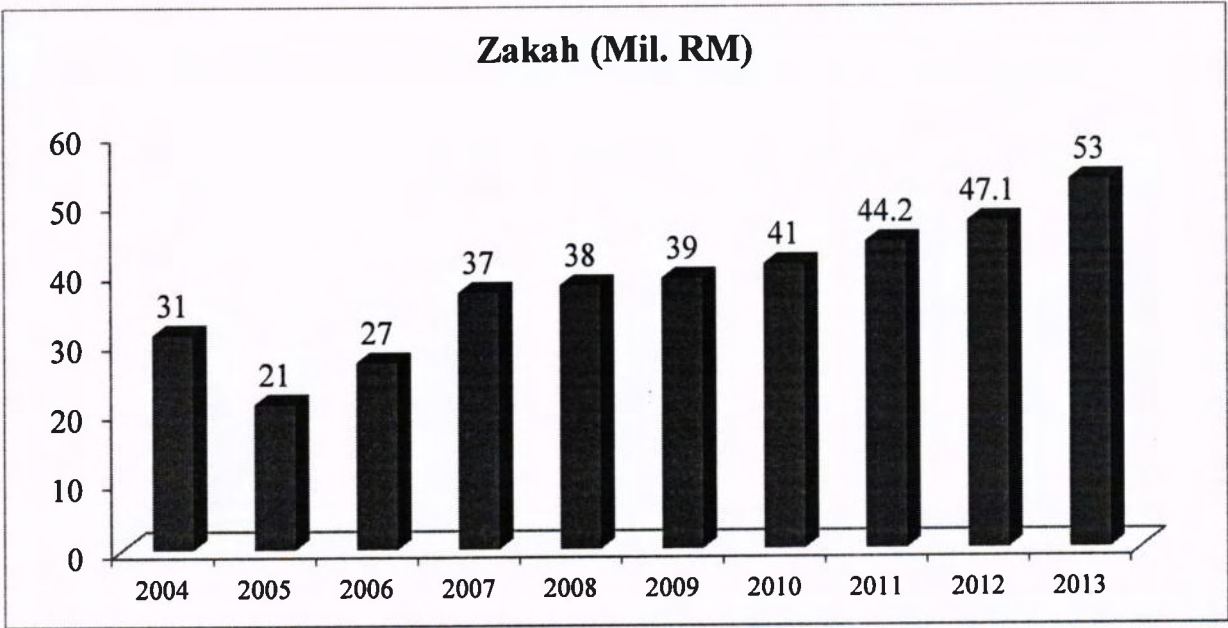


Fig 3.9 Zakah, 2004-13

3.3.3. HAJJ MANAGEMENT OF TH

Hajj management and services have been the core activity of TH since its inception 51 years ago. TH’s vision is to provide the best Hajj services for all Malaysian pilgrims. TH begins homework for Hajj period after the current hajj operations are completed. The new season starts with a thorough examination session on the last years’ operations. These post-mortem sessions serve as a mechanism for TH to get better Hajj services every year. Under the conditions of the Pilgrims Management and Fund Board Act, all pilgrims from Malaysia are required to make Hajj arrangements with TH. Hajj arrangements of TH cover the following steps:



## REGISTRATION FOR THE HAJJ

Hajj applicants can register for Hajj at TH branch offices, through TH official website and at TH authorized banks. Applicants should be Malaysian nationals. Online registration facility is available for the Malaysian citizens staying abroad. To register for Hajj with TH, one should accomplish the following requirements:

- Malaysian national
- Muslim
- Depositor with a TH account
- A minimum balance of RM 1300 required in TH account

**Issue of Hajj Passport and Hajj visa:** Hajj passports are issued to Malaysian citizens (permanent residents only).

**Medical certification of fitness:** All necessary medical examinations and inoculations against certain diseases like cholera, meningitis, and influenza are arranged by TH at local hospitals and health centers. If necessary, the intended pilgrims are also given treatment and even warded before the “certificate of fitness to perform the Hajj” is issued.

**Hajj guidance courses:** In conjunction with the state religious affairs departments, Hajj guidance courses are given to the pilgrims at state and district levels. Through the “Malaysian Pilgrims’ Development Programme” TH organizes several Hajj courses nationwide to ensure prospective pilgrims possess sufficient knowledge about Hajj rituals. In addition, various Hajj courses, training and guidance are given to the Hajj

workforce to make sure that they are knowledgeable, efficient and responsible while performing their duties throughout the Hajj operations<sup>8</sup>.

## **HAJJ DEPARTMENT**

TH manages the Hajj operations with the help of following seven departments. This helps division of work in managing Hajj operations. Hajj management departments are as follows:

**HAJJ DEPARTMENT:** This department is responsible for providing Hajj services to Malaysian Muslims so that they can perform the Hajj rituals properly.

**DOMESTIC OPERATIONS DIVISION (DOD):** DOD handles registration of Pilgrims. It is also responsible for handling passport & visa allocations. DOD coordinates with flight management about Hajj flights.

**HAJJ ADMINISTRATION DIVISION:** It provides management and operational services to improve the quality of Hajj. This division is responsible to control the activities associated with the pilgrims' welfare.

**GUIDANCE DIVISION:** Guidance Division is Responsible for providing guidance to the pilgrims through publishing Hajj materials and providing a panel of religious scholars.

**HAJJ AGENCIES:** Hajj Agencies are responsible for organizing licensed private Hajj operators under the provisions of TH Act.

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<sup>8</sup> Tabung Haji, Annual report 2012.

**HAJJ RESEARCH AND DEVELOPMENT:** It is responsible for preparing and controlling the research and development activities within its available budget. Its activities are carried out under the 'Academy of Hajj'.

**HAJJ CONSUL:** Hajj Consul is supposed to establish and maintain good relationships between the Saudi authorities and TH. Relationships cover Hajj affairs, purchasing materials for the pilgrims and managing accommodations for the pilgrims.

TH also ensures the health, safety and welfare of pilgrims during their stay at Saudi Arabia. TH provides welfare and medical services through a number of TH and government medical officials. TH provides all these services to pilgrims free of charge.

The Board can, with the approval of the Minister, allow private organizations to make private arrangements for Hajj. These private organizations are required to deposit a security with the Government to be determined by board. The deposit is to ensure that pilgrims will not be stranded during their pilgrimage. Malaysian Hajj pilgrims comprise *Muasassah* Hajj Pilgrims, Hajj Pilgrims under TH Travel & Services Sdn Bhd and Hajj Pilgrims under the management of Hajj Pilgrims Organiser (PJH). PHJ are private travel agencies licensed by TH.

Hajj operations of TH are classified into two, OHTA (Domestic Hajj Operations) and OHTS (Holy Land Hajj Operations). OHTA covers the process of registration of pilgrims, selection of eligibility, guidance, health examination, passport-visa handling, Hajj flight schedule and flight departure operations. OHTS covers all Hajj services in the Holy Land.

## TH HAJJ SERVICES IN THE SAUDI ARABIA

While performing Hajj in the Holy Land (Saudi Arabia), TH makes sure that its services provide convenience to the Malaysian pilgrims. Comfortable accommodation in Mecca & Medina, medical services, service counters of TH to operate their account in the Holy Land and Hajj guidance & counselling services are made available for pilgrims. A subsidiary company, TH Global Services Sdn Bhd (THGS) provides daily cooking facilities for pilgrims. This company provides lunch and dinner on daily basis. In the *Maktab* (office), it also provides cafeteria services for the convenience of pilgrims.

TH also provides financial services at the Holy Land. TH opens service counters at nine different locations where pilgrims can save, withdraw and make payments by operating their own account in the Saudi Arabia.

**Table 3.7 No. of Pilgrims from Malaysia, 2010-2014**

Year	No. of Pilgrims
2010	26,000
2011	27,900
2012	27,900
2013	27,900
2014	27,900

Source: Compiled from TH Annual Reports (2010-2013)

Hajj quota is provided to each Islamic country on the basis of predetermined rate by the Saudi Arabian Government. The quota is provided on the 0.1 % of the total population basis. For instance, Malaysia was allotted a hajj quota of 27,900 for the Hajj season 2014.



3.3.4. HAJJ COST IN MALAYSIA

TH has maintained Hajj charges at the fix level of RM 9980 from 2010 to 2014, although, there is increase in the Hajj cost every year, TH provides a handsome amount in subsidy to the pilgrims. This will make convenience for the Malaysian Muslims who want to fulfil Hajj obligation. Till 2013, the total amount of subsidy provided by TH reached to RM 93.4 million. TH provides subsidy as part of its “social obligation” and “corporate social responsibility” for the Malaysian pilgrims. This subsidy on Hajj fee is provided to only those who will go to pilgrimage for first time under the *Muasassah* category

Table 3.8 TH Hajj Cost, 2010-2014

Year	Actual Hajj Cost (RM)	Hajj Fees Charged (RM)	Subsidy Provided (RM)
2010	14130	9980	4150
2011	14340	9980	4360
2012	14880	9980	4900
2013	15555	9980	5575
2014	16155	9980	6175

Source: Compiled from TH Annual Reports, 2010-2013.

Awards and Achievements:

TH was awarded ISO 9001:2000 certification and ISO 9001:2008 certification in 2006 and 2008 respectively on Hajj Management. TH, in 2013, also successfully maintained MS ISO 9001:2008 Certification for Operations Management & Hajj Services both in Malaysia and Saudi Arabia. It is also a matter of fact that TH manages least cost Hajj in the region. Singapore charged Hajj dues, for 2014, ranging from lowest package value of USD 6,990 to highest package value of USD 13,650. In contrast, total dues for Hajj 2014 were USD 3099.86 in Malaysia.



We should explore some of the factors which entailed in THs' success. These factors can be religious, political, economical and social.

*"The years of experience, good infrastructure, well-planned operations, good intergovernmental relationship and economies of scale are among the factors contributing to the low cost and yet high quality services."<sup>9</sup>*

### **3.4. STRENGTHS, WEAKNESSES, OPPORTUNITIES & THREATS (SWOT) ANALYSIS OF TH**

SWOT is a useful tool to determine the position of TH in the market. It also identifies the factors responsible for TH success and also about the future opportunities. Identification of weaknesses shows the areas which need further considerations. Threats are the external factors highlighting future challenges in the economy. This section is divided into Internal and External Analysis of TH. Internal Analysis of TH determines the Strengths and Weaknesses of TH's experience. On the other hand, External Analysis of TH determines the Opportunities and Threats to TH.

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<sup>9</sup> Nayan, Encik Azhar (2000) *Towards Islamic Banking - Experiences and Challenges: A Case Study of Pilgrims Management & Fund Board, Malaysia*, Islamabad: Institute of Policy Studies, p.p. 58.

### 3.4.1 INTERNAL ANALYSIS OF TABUNG HAJI

#### (a) STRENGTHS

In the internal analysis of TH, strengths are those factors which add value and also give competitive edge to TH against competitors. There are many attributes and factors which may be considered strengths of TH. Here, this study will discuss some important factors as strengths of TH.

##### i. Benefits of Monopoly Position

TH almost has monopoly position in the Hajj management of Malaysia. It has exclusive right to handle Hajj matters in Malaysia. Under the provisions of the Pilgrims Management and Fund Board Act, all Malaysian pilgrims are required to make arrangements with 'Tabung Haji. This monopoly state of TH ensures stable growth in deposits.

##### ii. Participatory Management

The participatory and service oriented management concept under which TH has been operating has increased the efficiency of the organization considerably. All the staff members, depositors and pilgrims can easily see the CEO to voice their grievances. This has helped to establish good report among the pilgrims, depositors and the public.

##### iii. Efficient system of management

Another important strength point of TH is that it has evolved an efficient system of management. This efficiency lies in the separation of the power and decentralization of authorities. TH introduces an effective system of

accountability. It encourages the use of advance technology and equipment to improve the operations.

iv. Flexibility of deposits

The simplification of deposit procedures as well as cooperation with other similar Islamic financial institutions has enabled TH to mobilize remarkable savings for investment purposes. At the end of 2013, the total number of TH depositors was 8.3 million, which was 52% of the Muslim population in Malaysia.

v. Diversification of investment

The diversity of investment in a variety of economic enterprises minimized the risk and ensured the continued dividend to the depositors at a higher rate. TH Invests mainly in equities, both domestic and foreign.

vi. Investment through subsidiary companies

TH invests the funds of depositors through its various subsidiary companies. TH has developed subsidiary companies in different specified areas. Each subsidiary specializes in its concerned area.

vii. Competitive returns on investments

TH earns competitive returns from investments. TH's major investments are in real sector. So, TH gives competitive returns to its depositors.

## (b) WEAKNESSES

### i. Prolonged decision making approach

TH follows extensive procedure in approving an investment plan. As shown in Fig 3.6, above, every investment proposal needs to be approved from different concerned authorities. This brings inefficiency and wastage of time.

### ii. Lack of marketing strategy

Analysis of the annual reports of TH highlights that TH is lacking in marketing strategy. Conventional and Islamic Banks in Malaysia are adopting dynamic approach towards marketing their products. Their marketing strategy addresses the continuously changing market conditions. TH seems lacking behind in addressing the market requirements.

## 3.4.2. EXTERNAL ANALYSIS OF TABUNG HAJI

### (a) OPPORTUNITIES

#### i. Political will and social vision

TH is the result of political will and social vision of the then Malaysian government. This vision was backed by an appropriate technical knowledge. The government saw the tremendous possibility of development of Hajj management as an institution and TH was established through an act of parliament, after due consultation from the view points of Shari'ah scholars.

#### ii. Guarantee of the government

The Malaysian government provides guarantee to the depositors. This adds their confidence in TH. TH encourages savings from Malaysians not only for the Hajj purpose but also for many others needs of depositors. This helps in attracting the savings of depositors.

iii. Non-partisan and non-political approach

Another important external factor which contributes a lot in enhancing opportunities of TH is the non-partisan and non-political approach of the government. TH has emerged as a people's organization. This approach allows the authorities of TH to achieve its objectives and goals for the benefits of its pilgrims and depositors, irrespective of their political affiliation.

iv. Coordination and cooperation with government

TH enjoys full cooperation and coordination from the governments of Malaysia. There is also coordination from the government but also from private agencies for the purpose of Hajj affairs. TH enjoys coordination and cooperation from registration department, ministry of national unity and social development, ministry of health and different air-line companies. This cooperation from agencies helps TH to manage Hajj operations and economize the cost of Hajj.

v. Coordination and cooperation from Saudi government

TH enjoys coordination from Saudi government and other authorities of Saudi Government. This close cooperation from Saudi authorities helps TH to get advantage of the improved services provided there for Hajj affairs.



vi. Cooperation from mass media

The mass media maintains relationship with TH. TH uses popular forms of media to transmit information to the people. TH also gives response through media about public issues, concerns and problems. This adds to public confidence on TH's activities.

vii. Legal support

TH also enjoys legal support from the government that helps TH to build up as an institution and refrain from unnecessary competition in the country. No other individual or organization was allowed to provide Hajj services without the permission from the Minister in the Prime Minister's Department. Legal and judicial framework designed in Malaysia for Islamic banking and finance also contributes in expanding TH activities.

(b) THREATS

i. Limited to Malaysian citizens

Limitation of TH services to Malaysian citizens only has limited the scope of TH activities. It refrains TH from learning lessons from experiences of others. This limitation may stagnant the developing process of TH activities and harmful for addressing future challenges.

ii. No more monopoly position

TH enjoyed monopoly benefits in Malaysia as a sole Islamic financial institution till 1983. But later in 1983, Malaysian government was able to

establish an Islamic bank in Malaysia. After the development of Islamic banking industry in Malaysia, it became difficult for TH to gain monopoly benefits in the field of Islamic financial instruments.

iii. **Competitive pressure**

TH is facing competitive pressure from commercial banks. Commercial banks in Malaysia are licensed to practice Islamic financial products. These banks offer their products and services to Muslims and non-Muslims also. This expanding Islamic Banking industry in Malaysia creates a competitive pressure and reduces the monopoly benefits of TH.

## CHAPTER 4

### CURRENT SITUATION OF HAJJ MANAGEMENT IN PAKISTAN

Management of the Pilgrimage to Holy city of Mecca is a complex task. It involves many important aspects which require deep considerations. Research and in-depth study suggests improving the current situation of Hajj management in Pakistan. In this section, certain aspects of Hajj management techniques and issues involved are discussed. We will also highlight some of the problems that pilgrims are facing.

#### 4.1. HAJJ MANAGEMENT

Under the 1973 constitution of Pakistan, the task of arrangements for Hajj is made by the Ministry of Religious Affairs & Interfaith Harmony (MORA & IH). MORA & IH takes approval of Hajj Policy every year from Cabinet. Mission statement of MORA & IH for 2014 is as follows:

*“Serve and facilitate the intending pilgrims with commitment and dedication so as to enable them to undertake their religious obligation with ease and peace of mind.”<sup>10</sup>*

The main objective of the plan is to facilitate pilgrims. Facilitation requires suitable accommodation, health care and transportation during stay at Mecca and Medina. MORA & IH tries to make the pilgrimage as comfortable as possible within the available

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<sup>10</sup> Hajj Policy and Plan-2014

resources. The Ministry suggests and manages the standards affordable by local pilgrims by making widespread publicity.

## **ORGANIZATIONAL STRUCTURE**

MORA & IH is a government body managed by two Ministers appointed by the Federal government of Pakistan. One is the Federal Minister and other is the State Minister. The administration head of MORA & IH is the Secretary who belongs to the Federal beurocracy of Pakistan.

There is a Directorate of Hajj under Hajj Wing. Directorate of Hajj is responsible for all Hajj operations in Pakistan and in Saudi Arabia. It announces a Hajj Policy for every year. Before the announcement of new Hajj policy, Ministry analyzes the previous years' Hajj plan. The Honorable Supreme Court of Pakistan has constituted a committee which makes consultations with all stakeholders i.e. HGOs' (Private Hajj Group Organizations), master trainers, air carrier companies, Islamic scholars, members of civil society, media, some of the pilgrims who performed Hajj last year and the representatives of the banks. This committee reviews and modifies the previous years' policy to formulate new policy. Ministry also welcomes proposals for the next policy & plan. Suggestions to make Hajj arrangements are also considered. After all these considerations, Hajj Policy & Plan is formulated for the concerned year announced. A brief summary of the policy is also uploaded on the official website of the Ministry for public use.

#### 4.1.1. AN OVERVIEW OF THE HAJJ POLICY AND PLAN

This section will provide an overview of the Hajj Policy and Plan of Pakistan from 2007 to 2014. The Honorable Supreme Court of Pakistan directed MORA & IH to frame and announce the next years' Hajj policy preferably within one and half month of the arrival of final Hajj flight, i.e. after the termination of Hajj operations of last year.

#### HAJJ QUOTA

Hajj quota is allocated to every country by the Saudi government on the basis of 1000 pilgrims per 1 million Muslim populations. The Ministry implements the Hajj scheme through Government Scheme and Private Hajj Group Organizers (HGOs). Hajj quota is then distributed between these two in the ratio of 50:50 approx.

Table 4.1 No. of Pilgrims from Pakistan, 2007-2014

HAJJ YEAR	Pakistan Hajj Quota		
	Govt. Scheme	HGOs	Total
2007	79500	80088	159588
2008	85000	79647	164647
2009	80000	79647	159647
2010	80000	79647	159647
2011	89605	89605	179210
2012	89605	89605	179210
2013	89605	89605	179210
2014	56684	86684	143368

Source: Compiled from the Hajj Policy and Plan (2007 to 2014)



The Saudi government had reduced the Pakistan Hajj quota by 20% during year 2014 from 179,210 pilgrims to 143,338 pilgrims due to expansion plan of *Haram-e-Kaaba*. Ministry has allocated 15,000 pilgrims of Government scheme to HGOs on proportionate base.

Table 4.1, above, depicts the number of pilgrims since 2007 to 2014 under both the Govt. Scheme and HGOs. But important thing to note is the total number of applicants. Due to data constraints we are able to find the total number of applicants for two years only, which is 185,005 for year 2013 and 202,684 for the year 2014. If we consider the total population of Pakistan exactly 180 million then the number of applicants as percentage of total population is just 0.11 percent. It is a very small number of the total population and the problem is small amount of savings and rising cost of Hajj. This phenomenon will be discussed in detail below in the next section.

### **SELECTION CRITERIA:**

Criteria for selecting pilgrims changed in 2011 from balloting system to the principle of “first-come, first-serve”. Pilgrims under GHS were selected through balloting among total number of applicants till 2010. Selected candidates were considered registered for Hajj. Majority of the pilgrims were allocated by randomized balloting system and the remaining pilgrims by special quotas. Under GHS special seats were reserved for hardship cases, labors and low wage employees of different corporate entities etc. The major draw-back of balloting system was that the balloting was the primary source for most of the people as many were not eligible for special seats. Also,

Hajj arrangements with HGOs were typically more costly. Till now from 2011, applicants are considered eligible on the basis of time and date of deposit of Hajj dues in the nominated banks.

### **ACCOMMODATION ARRANGEMENTS:**

It had been a difficult task for the Ministry to arrange accommodations at Mecca and Medina because accommodation market especially at Mecca exhibits severe instability due to free market economy principle. At Mecca, there is continuing extension plan of *Haram-e-Kaaba*. In 2014, GHS offered only one category due to shortage of accommodations. Accommodation at Mecca was categorized into three. These were white, green and blue categories. These categories were differentiated from one other on the basis of distance from Haram Sharif and also in cost.

### **HAJJ DUES**

Table 4.2 below presents Hajj dues from 2007 to 2014. We have presented Hajj dues of one category only. In years when more than one category was offered by GHS, we mentioned only dues of White category. In air fare row the first amount represents fare from south and the second amount fare from north region. Table, below, depicts that fare from south was PKR 38,500 in 2007 and reached to PKR 107,700 in 2014. But fare from north was PKR 46,200 in 2007 and reached to PKR 97,700 in 2014. Accommodation charges both for Mecca and Medina mentioned in each policy are upper limits. These are charged on actual basis. Compulsory dues of Hajj also increased three

fold in these years from PKR 21,978 in 2007 to Rs. PKR 64,759 in 2014. Compulsory Hajj dues consist of transport charges, rail fare, tent charges, maktab fee etc.

The Ministry launched a scheme in 2011 for risks management. Under the title of “*Hujjaj Mohafiz Scheme*” a fund “*Hujjaj Muhafiz Fund*” is collected from pilgrims. This fund is collected by using Shari’ah principle of “Takaful”. It is used to remunerate the affected pilgrims or nominee of the dead pilgrim. Pilgrims are required to arrange, on their own, specified amount to meet their personal expenditures in the Saudi Arabia. An amount of PKR 3,500 is charged as service charges which include expenses on the welfare of staff, cost of training and vaccination.

**Table 4.2 Hajj Dues, 2007-2014**

Item	2007	2008	2009	2010	2011	2012	2013	2014
	38,500	70,000	61,000	67,000	72,000	73,000	87,500	107,700
Air Fare	—	—	—	—	—	—	—	—
	46,200	84,000	73,000	79,000	84,000	85,000	97,500	97,700
Terminal Tax (PKR.50+SR.50)	1,300	1,425	1,600	1,650	1,700	1,850	2,000	2,050
Accommodation charges at Mecca	48,300	59,200	70,400	82,800	90,000	103,000	114,000	111,600
Accommodation Charges at Medina	6,000	7,400	8,800	11,500	13,000	14,000	15,000	15,500
Compulsory Hajj Dues	16,567	21,978	28,336	41,147	48,969	58,789	62,670	64,759
Hujjaj Muhafiz Fund	-	-	-	-	400	400	400	500
Service Charges	900	1,000	1,150	1,300	2,000	3,000	3,500	3,500

Source: Compiled from the Hajj Policy and Plan (2007 to 2014)



## 4.2. COST OF HAJJ, INCOME AND SAVING RELATIONSHIP IN PAKISTAN

As we discussed above that Hajj is obligatory to only those who can afford or who have sufficient savings/resources. In developing countries like Pakistan, it is not an easy job for every citizen to perform Hajj as the cost of Hajj is increasing year by year on the one hand and the real savings declining on the other hand. In this section we will analyze thoroughly the cost of Hajj and its relationship with Income and Saving.

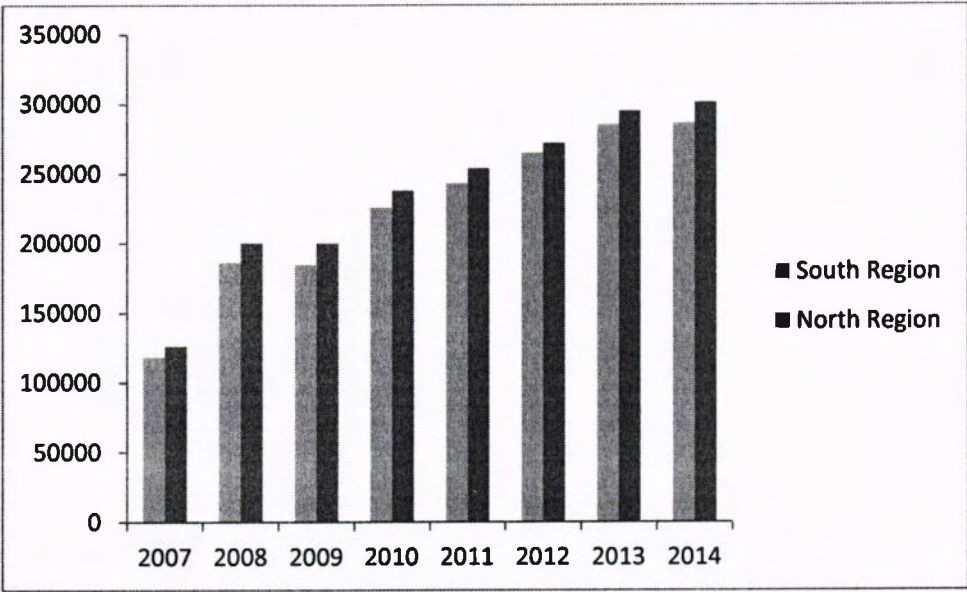
### 4.2.1. COST OF HAJJ

Cost of Hajj includes all the expenditures, i-e Air Fare, Terminal Tax, Rent of Accommodation at Mecca and Medina, Compulsory Hajj Dues, Hujjaj Mohafiz Fund, Service Charges (Expenditure on Welfare Staff, Cost of Training and Vaccination) , Personal Exchange Quota, etc. Cost of Hajj is increasing continuously over the period of analysis. In 2007 it was PKR 126350 while it has increased up to PKR 301031.

**Table 4. 3 Hajj Dues in Pakistan, 2007-2014**

Hajj Dues	South Region	North Region
2007	118650	126350
2008	186000	200000
2009	185000	200000
2010	226000	238000
2011	243000	254000
2012	265000	272060
2013	285070	295070
2014	286031	301031

Source: Compiled from Hajj Policy and Plan (2007-2014)



**Fig 4.1 Hajj Cost in Pakistan, 2004-2014**

South Region includes only three cities namely Karachi, Quetta and Sukkur, whereas North region includes rest of the areas of Punjab and Khyber Pakhtunkhwa. Expenditure for southern region is lower than northern region because of difference in air-fair. But the important thing is that cost of Hajj in both the regions is increasing over time due to inflation as depicted in Fig 4.1, as well as in Table 4.3, above. In year 2008 and 2009, cost of Hajj remains the same but expenditure in 2008 has significantly increased as compared to 2007. Same is the case, thereafter, in succeeding years. The main reason behind the increase in cost of Hajj is increase in air fare due to oil price hike.



#### 4.2.2. SAVING, INCOME RELATIONSHIP IN PAKISTAN

Savings are an important ingredient of economic growth for any country in the world, whether developed or developing. But saving ratio, particularly, in developing countries is very low. Savings are comprised of three main components. These are:

- i. Corporate savings
- ii. Household savings
- iii. Government savings

In this study we are concerned with household savings only. Household savings in Pakistan are 70 percent of our total savings, even then the common man do not have sufficient savings in order to perform Hajj duty.

Many households in Pakistan save through informal and *riba*-free saving circles. This method is popularly known as *committee*. It is a multi-purpose saving method and very popular among masses. *Committees* are run by office workers, housewives, shopkeepers, students and even by high society ladies. All members of a group, of relatives or trusted friends, pool an equal sum daily/weekly/monthly for a fixed time, usually one/two years. A ballot is conducted and each contributor is allotted a special number which indicates his\her turn. A participant gets the pooled sum every month. He keeps contributing until everyone gets pooled sum. Saving through Ballot *Committees* method is considered hording of money because there isn't any investment of the total funds collected because people usually adopt this method to meet their consumption expenditures.

As we discussed earlier, Hajj is obligatory to well-off Muslims. It means it is directly related to savings and income of a person. Muslims having higher household savings can

easily finance the Hajj cost. In developing countries like Pakistan, not only the saving rate is insufficient to meet the Hajj requirements but also the inflation rate is very high, which in turn leads to low real savings.

#### 4.2.3. CAUSES OF LOW SAVINGS

There are many reasons of low household saving<sup>11</sup> such as high dependency ratio, unemployment, vicious circle of poverty, female to male ratio, holdings of assets (land holding, number of livestock and value of house). These are as follows:

1. Due to Government's policy of keeping interest rate low, the level of household savings remains low. As, there exist a well-built correlation among household savings rate and rate of return.
2. The saving rate will be high if there exists an easy access to markets, financial institutes and instruments.
3. There is also a strong correlation between household savings and accessibility to bank credit.
4. Inflation and unpredictability regarding future is also a restriction on household savings.
5. Higher the dependency ratio lowers the saving rate. As the consumption level increases relative to income and as a result saving level will remain low.

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<sup>11</sup> Concluded from Zaidi, S. Akber(2007) Issues in Pakistan's Economy, Iqbal, Zafar (1993) institutional Variations in Saving Behaviour in Pakistan, Siddiqui, Rehana and Rizwana Siddiqui (1993) Household Saving in Pakistan, Shaikh, Salman (2012) Consumption and Savings Behavior in Pakistan, Basit, A. B., et, al. (2010) How Do Savings Differ among Various Earner Groups in Pakistan? Empirical Evidence from Multan District, Shah, Mahmood, et. al., (2011) Household Income, Consumption and Saving before and after Chasma Right Bank Canal (CRBC), DIKhan,

6. Female to male ratio also inversely affects household savings. Due to social constraints women are not allowed to work freely, therefore, income as well as savings will remain low.

We have one more evidence of dismal position of savings in Pakistan i.e. high inflation. We have average monthly data on household income and consumption expenditures by quintiles. Analysis of average consumption expenditure and average monthly income has been divided into five standardized quintiles. Every quintile holds 20 percent to the population. Distribution of quintiles is as follows in Table 4.4, below:

Table 4.4 Population divided into Quintiles

Quintiles	Population Group
1 <sup>st</sup>	Poorest 20% of Population
2 <sup>nd</sup>	Next 20% Better Off (Lower Middle)
3 <sup>rd</sup>	Middle 20% of Population
4 <sup>th</sup>	Next 20% Better Off (Upper Middle)
5 <sup>th</sup>	Richest 20% of Population

Table 4.5 & Fig 4.2, below, are showing average monthly income in rupees of different sections of population ranging from poorest to richest from 2004-05 to 2011-12. This shows a continuous increase in income over the specified period of time and same is the situation for all quintiles of population.

Table 4.5 Average Monthly Household Income by Quintiles (Rs)

Quintiles	2004-05	2005-06	2007-08	2010-11	2011-12	2013-14
1 <sup>st</sup>	5567	6725	7812	11386	13307	16583
2 <sup>nd</sup>	6719	8393	9910	14274	16815	20436
3 <sup>rd</sup>	7488	9788	11172	16841	19928	24188
4 <sup>th</sup>	8990	11493	13227	20784	24531	29255
5 <sup>th</sup>	16182	20811	24659	37728	43859	53001
Pakistan	9685	12326	14456	21785	25679	30999

Source: Compiled from various reports of HIES.

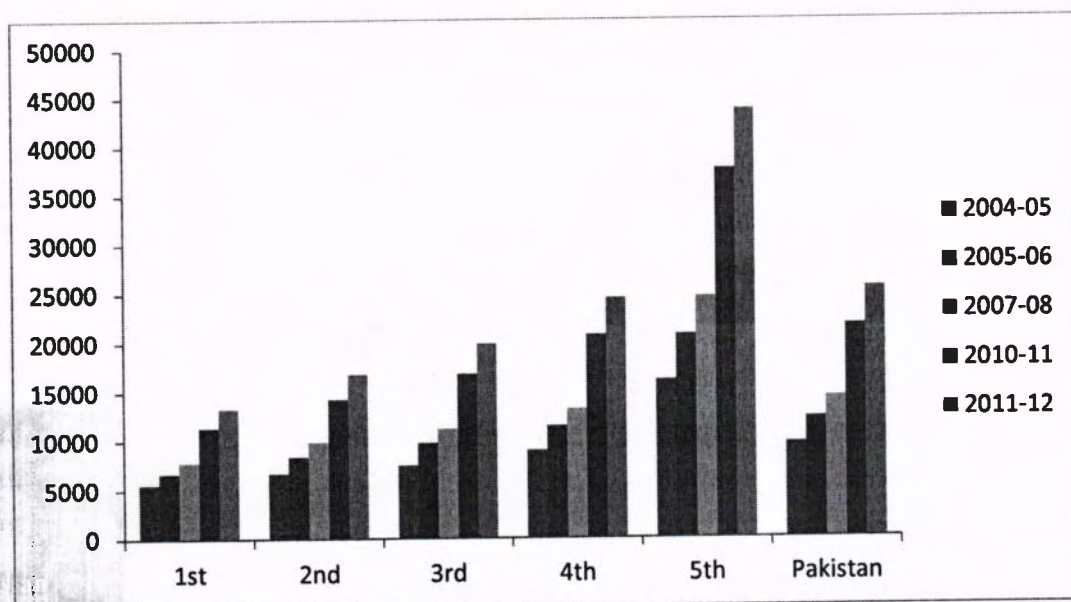


Fig 4.2 Average Monthly Household Income by Quintiles (Rs)

Similar is the case with average monthly consumption expenditure in rupees indicated by the Table 4.6 and Fig. 4.3, below, average monthly consumption is increasing continuously over the specified period of time.



Table 4. 6 Average Monthly Consumption Expenditure by Quintiles (Rs)

Quintiles	2004-05	2005-06	2007-08	2010-11	2011-12	2013-14
1 <sup>st</sup>	5171	5954	7485	11503	13123	16142
2 <sup>nd</sup>	6458	7501	9209	14268	16412	19975
3 <sup>rd</sup>	7440	8564	10445	16537	18901	23718
4 <sup>th</sup>	8856	10161	12235	19014	21741	26987
5 <sup>th</sup>	14619	17624	19866	29902	34774	42645
Pakistan	9121	10583	12660	19336	22379	27553

Source: Compiled from various reports of HIES.

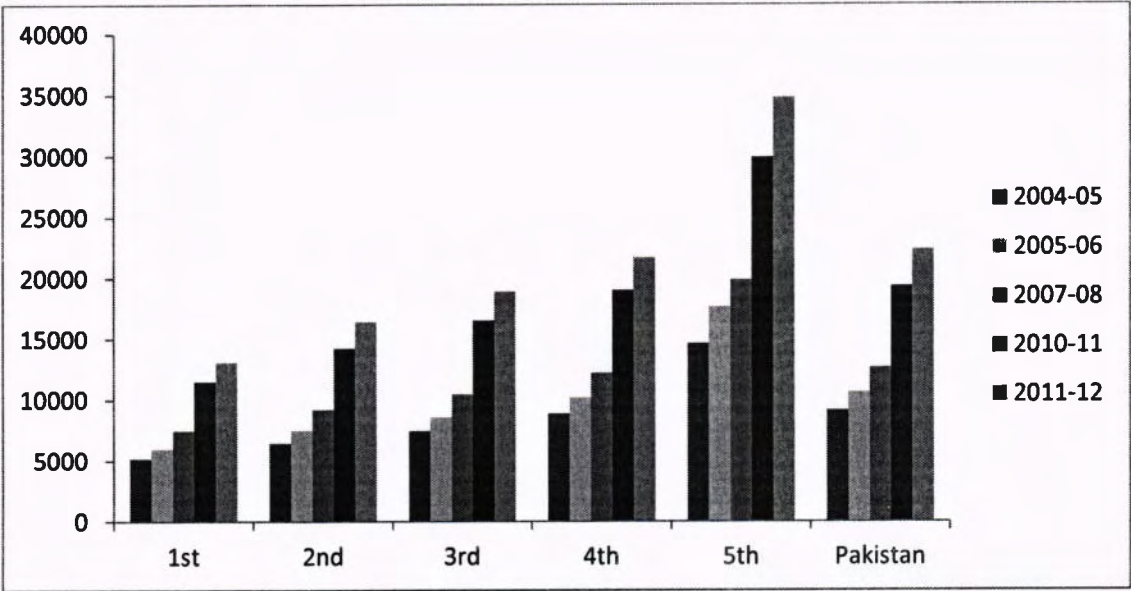


Fig 4.3 Average Monthly Consumption Expenditure by Quintiles (Rs)

Table 4.7 and Fig 4.4 below give an idea about inflation (Consumer Price Index) which is almost double digit in each year of analysis, apart from 2005-06 to 2007-08. Thus increase in income can be easily waved off due to inflation and end result is lower saving trend.



Table 4.07 Consumer Price Index (CPI) Growth %

Years	CPI (Growth %)
2004-05	9.3
2005-06	7.9
2006-07	7.8
2007-08	12
2008-09	17
2009-10	10.1
2010-11	13.7
2011-12	11

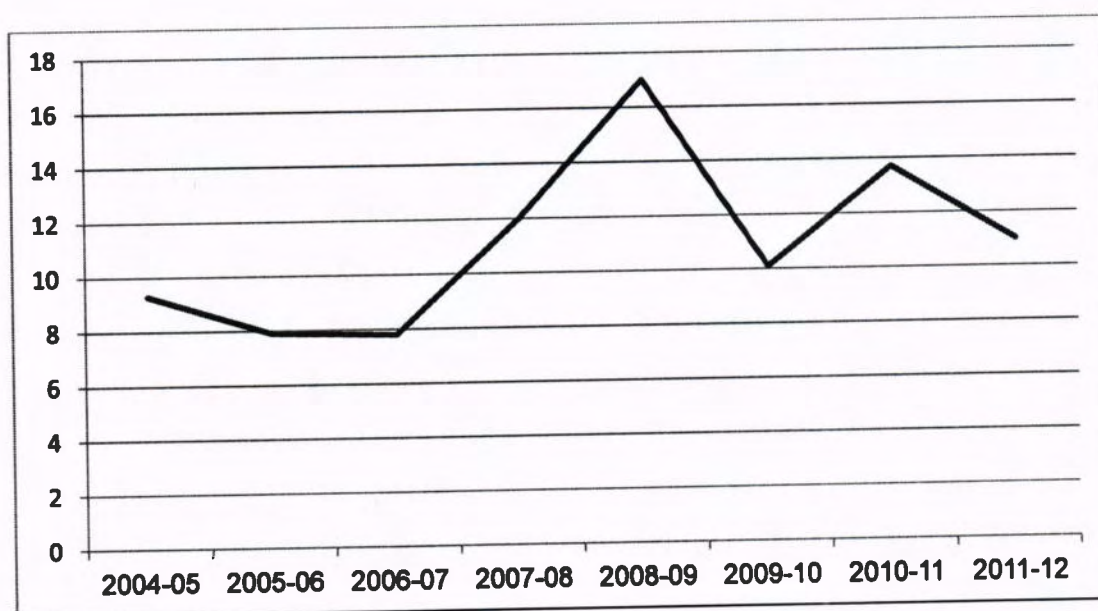


Fig 4.4 Consumer Price Index Growth

We can also calculate average monthly savings of different strata of population as it is given in Table 4.8, below. Saving pattern of different population groups shows a very interesting but dismal, miserable and depressing picture. Up to fourth quintile – which is 80% of total population – pattern of savings is irregular and volatile over time but savings

for overall Pakistan and fifth quintile – which is just 20% of total population – is increasing and pleasing.

Table 4.8 Average Monthly Savings by Quintiles (Rs)

Quintiles	2004-05	2005-06	2007-08	2010-11	2011-12
1 <sup>st</sup>	396	771	372	-117	184
2 <sup>nd</sup>	261	892	701	6	403
3 <sup>rd</sup>	48	1224	727	304	1027
4 <sup>th</sup>	134	1332	992	1770	2790
5 <sup>th</sup>	1563	3187	4793	7826	9085
Pakistan	564	1743	1796	2449	3300

Source: Calculated from table 4.5 and table 4.6

In Fig. 4.5, below, first four bars of quintile one to four are below Rs 2000, fifth bar of quintile four is slightly above 2000 mark but fifth quintile is reaching up to Rs. 10000 in 2011-12.

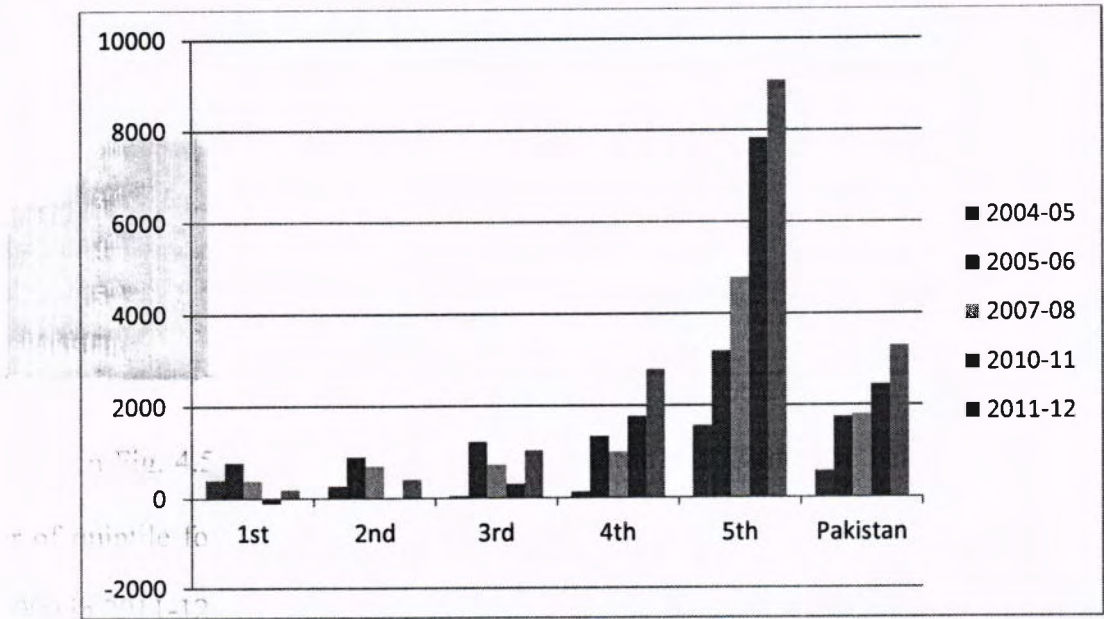


Fig 4.5 Average Monthly Savings by Quintiles (Rs)

The above detailed analysis of saving, income and cost of Hajj indicates that only a limited number of people are in the Hajj Bracket – those who can finance Hajj dues.

## CHAPTER 5

### PROPOSED MODEL FOR HAJJ MANAGEMENT IN PAKISTAN

The cost on Pilgrimage increases every year as evident from section 4.2.1, above. Depending on requirements, it ranges between PKR 286031 to PKR 301031 per person. Pilgrims' part of the preparation for pilgrimage entails savings for air fares, accommodation charges, Hajj dues, meals and necessary arrangements for the journey. They are required to make stipulation for home expenses so that dependents, households or businesses are granted for during the pilgrimage period. Anyone planning his journey for Hajj will have to consider prearranged savings as a part of his plan. These savings need to grow with the increasing trend in inflation. Savings also need to be *riba*-free and to be safe.

Current state of Hajj arrangements in Pakistan is not encouraging. It does not consider the peoples' desire to save for Hajj. As such, there is need to review the current Hajj structure and detail of arrangements. In this section we propose a model for Hajj management in Pakistan and suggest some necessary changes required in the existing scheme.

Our model for Hajj Management in Pakistan comprises mainly two objectives:



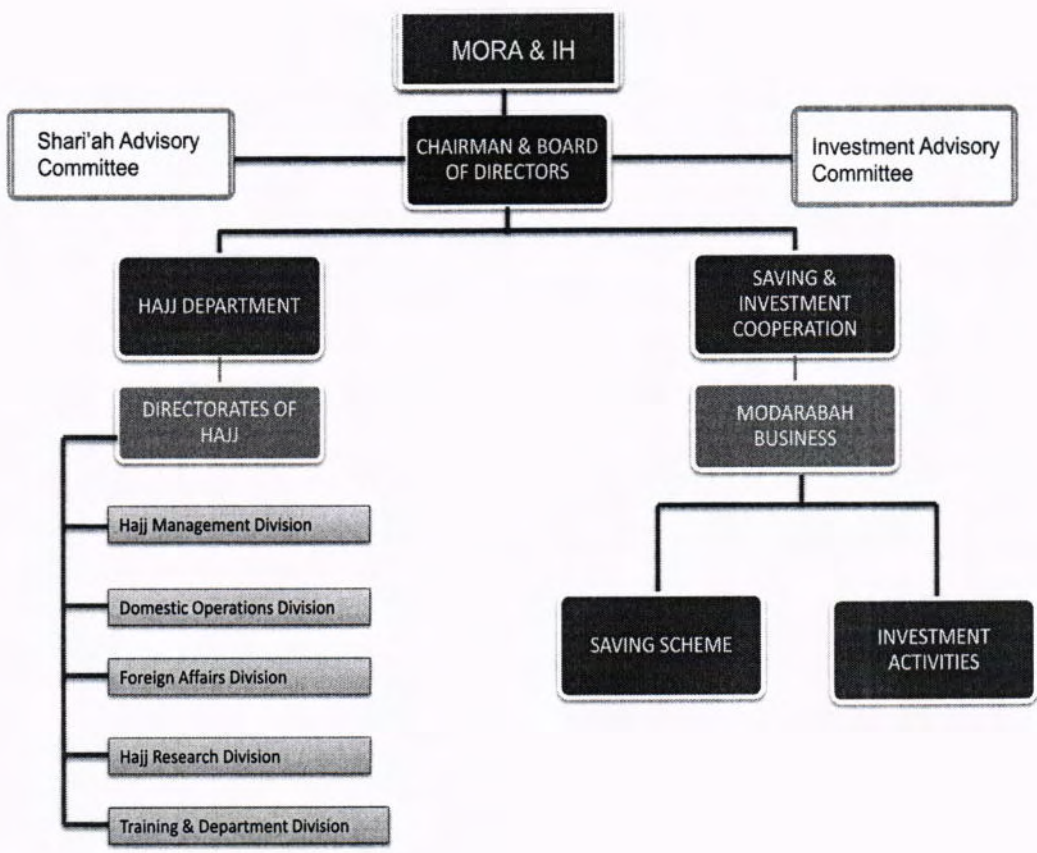
1. To assist the Muslims of Pakistan to save step by step purposefully for Hajj. In this way, they can afford pilgrimage expenses with ease to fulfill their religious obligation.
2. To enable the Muslims to participate in Shari'ah guided investment modes. This will boost country's economic development.

For this purpose, a specialized institution is proposed that will work as a saving and investment corporation. It will receive deposits from Muslims of the Pakistan in the capacity of future Hajj applicants. After investing in Shari'ah guided modes, the profit will be distributed among depositors. This financial assistance will enable them to perform religious obligation without encountering financial hardships.

## **5.1. ORGANIZATIONAL STRUCTURE**

To fulfill the above mentioned objectives, this study proposes semi-government arrangements for better results. Constitutional amendment will be required for formulating the new setup. MORA & IH as a representative of GOP can govern all affairs. There can be a Chairman of the group. Board of directors can be suggested from representatives of the public and private sectors. This board can be an autonomous body which can exercise its statutory powers to formulate policies. All plans and actions finalized in board must need approval from the concerned Ministers office before implementation.





**Fig 5.1 Proposed Organizational Structure**

Members of the board may comprise of chairman of the organization, a representative from the MORA & IH and other stakeholders. Board can take help from different committees. We suggest two committees; one is a Shari’ah advisory committee and other is an investment advisory committee related to our model. Shari’ah advisory committee may comprise of Shari’ah scholars from different Muslim sects of Pakistan. This committee will guide the board about Shari’ah rulings concerning different modes of transactions. Committee for investment advisory will guide the board about investment opportunities. This committee will analyze investment opportunities in different sectors

of Pakistan economy. It will also examine the risk factors involved in investment activities.

## **DIRECTORATE OF HAJJ:**

This study proposes some amendments in the existing structure of Directorate of Hajj for better management and results. Hajj department can be organized as follows:

### **HAJJ MANAGEMENT DIVISION**

This division will provide management and operational services to improve the quality of Hajj management. It will control all activities associated with pilgrims' welfare.

### **DOMESTIC OPERATIONS DIVISION**

This division will deal with domestic Hajj affairs. It will handle process of receiving Hajj applications and registration of Pilgrims. It will deal with passport & visa allocations. It will coordinate with HGO's to provide better services and communicate with air companies.

### **FOREIGN AFFAIRS DIVISION**

This division will deal Hajj affairs in the Holy Land. It will communicate and negotiate with Saudi government about arrangements for pilgrims. It will be

responsible to arrange accommodations and transportation in the city of Mecca and Medina.

### **HAJJ RESEARCH DIVISION**

This division will be accountable for controlling the research and development activities. Pamphlets, brochures, books and different materials can be published on relevant topics. These study materials will be provided to all pilgrims before starting of their journey.

### **TRAINING & GUIDANCE DIVISION**

Training of *Hujjaj* and guidance of performing Hajj rituals is of prime importance. This division will be responsible to manage training and guidance activities. Training sessions can be organized from time to time at different places. These training sessions will be helpful for future pilgrims to learn about Hajj rituals. It is necessary to train pilgrims about the necessary precautions needed during their pilgrimage. Pilgrims can be guided about health issues.

## **5.2. SAVINGS AND INVESTMENT ACTIVITIES:**

To fulfill the financial needs an institution is required that can work as saving and investment cooperation.

Table 5.1, below, shows the deposit sum received by GOP in the case of Hajj dues. The fourth column "Hajj Dues" of the Table 5.1, below, is calculated from the

Table 4.3, in previous section. We take the average of Hajj Dues from both regions. The last column depicts the yearly total sum of Hajj dues received by the government. In 2007, the sum was Rs. 9.74 billion with the increasing trend due to annual increase in the Hajj Dues and was Rs. 26 billion in 2013. In 2014, it seems to decrease to Rs. 16.64 billion. This decrease in sum received was due to allocation of extra 15,000 pilgrim's quota to HGOs by MORA & IH.

**Table 5.1 Sum of Hajj dues, 2007-2014.**

Year	No. of Pilgrims under GHS	Hajj Dues charged(GHS)	Sum of Dues received (Billion PKR)
2007	79500	122500	9.74
2008	85000	193000	16.41
2009	80000	192500	15.40
2010	80000	232000	18.56
2011	89605	248500	22.27
2012	89605	268530	24.06
2013	89605	290070	26.00
2014	56684	293531	16.64

Source: Compiled from Table 4.1 & 4.3

The proposed institution will provide saving services to the Muslims of Pakistan who want to perform their Hajj obligation. This cooperation will receive deposits and invest them into Shari'ah guided modes of investments. Profits from investments will be distributed among depositors. Hajj applicants, as depositors, are considered fund provider for investment. It's similar to the Islamic contract of *Modaraba*. In case of *Modaraba* the provider of fund is called "*rabb-ul-maal*", whereas the other party putting his effort (expertise and management skills) is called "*modarib*". It is one of the primary modes of Islamic finance. *Modaraba* business provides investment opportunities to the parties who are looking *halal* earnings according to Shari'ah.



Our proposed institution is different from current organizational of MORA & IH in the following respects:

- MORA & IH is fully controlled by the Government of Pakistan. We suggested a semi-government body.
- We are attaching a saving & investment corporation with the ministry. Currently the ministry is only involved in organizing pilgrimage. They are not involved in financial activities.
- We suggested a Shari'ah Advisory Committee which not only monitor financial matters but also the activities of Hajj Department.

### 5.2.1. SAVING PROJECTIONS

The study will project savings for Hajj. These projections will point out about the time period required for an individual to perform his Hajj obligation and the amount he will have to save monthly/quarterly/yearly in installments. Here, we will develop saving projections for one year to five years. This study considers Islamic banks' profitability indicator as a proxy for monthly profit.

SBP measures Return on Equity (ROE) and Return on Assets (ROA) among profitability indicators for Islamic banks of Pakistan. We will use ROE profitability indicator as a proxy for profits. Islamic banks in Pakistan do not invest directly into real sector rather they invest in securities, *sukuks*, shares etc. Islamic banking investments in equities are earning handsome returns from 2011 to 2016. Table 5.2, below, shows the annual returns Islamic Banks are earning on equities. On average, there is 13% annual increase in the profitability of Islamic banks.



Table 5.2 ROE (Percent), 2010-2016.

Years	ROE (Average Percent)
2010	6.10%
2011	16.63%
2012	15.70%
2013	11.48%
2014	15.75%
2015	12.90%
2016	10.80%
Average	12.76%

*Compiled from various issues of Islamic Banking Bulletin issued by SBP*

This study will make projection for future the lowest, average and highest profit rates. Table 5.2, above, shows the lowest rate of 6% in 2010 and the highest rate of 17% in 2011. These profits will be distributed to the depositors after making adjustment for inflation and service charges. Also, Zakah is deducted from deposits after the completion of one year.

We expect more returns on investments than other Islamic banks because our proposed institution will make investments into the real sector through establishing subsidiaries in different areas. Tabung Haji also getting higher returns on investments as compared to other Islamic banks there in Malaysia. This will further ease the process of saving for the depositors.

Table 5.3, below, shows the annual Hajj dues charged by GHS. The average increase in dues from 2010 to 2016 is 6%. Due to the reduction in airfare these dues were reduced in 2013-14. A 6% inflation rate will be deducted from the profits

earned from investments. We assume 6% annual charges as a proxy for organizational service charges. These will also be deducted from the deposited sums.

Table 5.3 Percent increase in Hajj dues, 2010-2016.

Year	Hajj Dues charged (GHS)	Percent increase in Hajj Dues
2010	232000	20.52
2011	248500	7.11
2012	268530	8.06
2013	290070	8.02
2014	267231	-7.87
2015	260471	-2.53
2016	283146	8.71

We assume above mentioned values for profit rate, inflation rate and depositors profit to make saving projections;

Targeted amount (Hajj dues) = 0.3 Million PKR

Organizational Profit:

Quarterly average profit = 13%

Lowest quarterly profit = 6%

Highest quarterly profit = 17%

Monthly average profit = 4.33%

Lowest monthly profit = 2.33%

Highest monthly profit = 5.66%

Deductions:

Inflation (annual) = 6%

Inflation (monthly) = 0.50%

Organizational Service charges (monthly) = 0.50%

Net Profit to the depositors

Average Profit (Monthly) = 3.3%

Lowest Profit (Monthly) = 1.3%

Highest Profit (Monthly) = 4.7%

Hajj applicants will deposit an amount as initial deposit and become a part of pilgrim's deposit pool. The sum of deposits received by our institution will be invested in Shari'ah compliant modes. The profit derived from these investments will then be distributed among depositors after deduction. In this manner, they can be able to afford Hajj expenditures without encountering hardships.

#### **Case I: Saving projection for one year**

Table 5.4, below, depicts the savings projected for one year. A person has to deposit 23,623 PKR monthly with the lowest profit rate, 20,428 PKR monthly with the average profit rate and 18,944 PKR monthly with the highest profit rate in order to reach the targeted amount of 0.3 million PKR of Hajj dues in one year. Depositors are receiving lowest 2.33%, average 4.33% and 5.66% profit rate on investments monthly. This will add to their contribution. After receiving the profit, their deposit, increase and this will help them to reach the required amount, even after deduction of 6% inflation cost, 6% service charges and 2.5% Zakah payment from the net amount.

Table 5.4 Saving Projection for one year

Year s	Month s	Lowest Profit Rate			Average Profit Rate			Highest Profit Rate		
		Initial Deposi t	Amoun t of Profit	Net Amoun t	Initial Deposi t	Amoun t of Profit	Net Amoun t	Initial Deposi t	Amoun t of Profit	Net Amoun t
1st Year	Jan	23623	307	23930	20428	776	21204	18944	985	19929
	Feb	23623	618	48171	20428	1582	43214	18944	2021	40894
	March	23623	929	72723	20428	2389	66031	18944	3060	62898
	April	23623	1240	97586	20428	3196	89654	18944	4099	85941
	May	23623	1552	122760	20428	4003	114085	18944	5139	110023
	June	23623	1863	148246	20428	4810	139322	18944	6178	135144
	July	23623	2174	174042	20428	5617	165367	18944	7217	161304
	Aug	23623	2485	200150	20428	6423	192218	18944	8256	188504
	Sep	23623	2796	226569	20428	7230	219876	18944	9295	216742
	Oct	23623	3107	253299	20428	8037	248341	18944	10334	246020
	Nov	23623	3418	280340	20428	8844	277613	18944	11373	276336
	Dec	23623	3730	307692	20428	9651	307692	18944	12412	307692

**Case II: Saving projection for two years**

Table 5.5, below, shows that if an individual wants to reach the targeted amount of 0.3 million PKR in two years, he has to deposit monthly 11,300 PKR with lowest, 9,231 PKR with average and 8,152 PKR with highest profit rate.



Table 5.5 Saving Projection consists of 2 years.

Years	Months	Lowest Profit Rate			Average Profit Rate			Highest Profit Rate		
		Initial Deposit	Amount of Profit	Net Amount	Initial Deposit	Amount of Profit	Net Amount	Initial Deposit	Amount of Profit	Net Amount
1 <sup>st</sup> Year	Jan	11300	147	11446	9231	305	9536	8152	383	8535
	Feb	11300	296	23042	9231	619	19386	8152	784	17472
	March	11300	445	34786	9231	934	29551	8152	1186	26810
	April	11300	593	46678	9231	1249	40031	8152	1588	36551
	May	11300	742	58720	9231	1564	50826	8152	1990	46693
	June	11300	891	70911	9231	1879	61937	8152	2392	57238
	July	11300	1040	83250	9231	2194	73362	8152	2794	68184
	Aug	11300	1189	95738	9231	2509	85102	8152	3197	79533
	Sep	11300	1337	108375	9231	2824	97158	8152	3599	91284
	Oct	11300	1486	121161	9231	3139	109528	8152	4001	103436
	Nov	11300	1635	134096	9231	3454	122213	8152	4403	115991
	Dec	11300	1784	147179	9231	3769	135214	8152	4805	128948
2 <sup>nd</sup> Year	Jan	11300	1933	160411	9231	4084	148529	8152	5207	142307
	Feb	11300	2082	173793	9231	4399	162160	8152	5609	156068
	March	11300	2230	187323	9231	4714	176105	8152	6011	170231
	April	11300	2379	201001	9231	5030	190365	8152	6413	184796
	May	11300	2528	214829	9231	5345	204941	8152	6815	199763
	June	11300	2677	228805	9231	5660	219831	8152	7217	215132
	July	11300	2826	242931	9231	5975	235037	8152	7619	230903
	Aug	11300	2975	257205	9231	6290	250557	8152	8021	247076
	Sep	11300	3123	271628	9231	6605	266393	8152	8423	263651
	Oct	11300	3272	286199	9231	6920	282543	8152	8825	280629
	Nov	11300	3421	300920	9231	7235	299009	8152	9227	298008
	Dec	11300	3570	315789	9231	7550	315789	8152	9629	315789

### Case III: Saving projection for three years

Table 5.6, below, highlights that if a person wants to reach the targeted amount of 0.3 million PKR in four years, he has to deposit monthly 7,245 PKR with lowest, 5,526 PKR with average and 4,717 PKR with highest profit rate. Depositors will be able to afford Hajj expenses after three years even after deductions.



Table 5.6 Saving Projection for 3 years.

Years	Months	Lowest Profit Rate			Average Profit Rate			Highest Profit Rate		
		Initial Deposit	Amount of Profit	Net Amount	Initial Deposit	Amount of Profit	Net Amount	Initial Deposit	Amount of Profit	Net Amount
1 <sup>st</sup> Year	Jan	7245	94	7339	5526	182	5709	4717	222	4939
	Feb	7245	190	14774	5526	371	11606	4717	454	10109
	March	7245	285	22304	5526	559	17692	4717	686	15513
	April	7245	380	29929	5526	748	23966	4717	919	21148
	May	7245	476	37650	5526	937	30429	4717	1152	27017
	June	7245	571	45466	5526	1125	37081	4717	1384	33118
	July	7245	667	53377	5526	1314	43921	4717	1617	39452
	Aug	7245	762	61385	5526	1502	50950	4717	1850	46018
	Sep	7245	858	69487	5526	1691	58167	4717	2082	52817
	Oct	7245	953	77685	5526	1880	65573	4717	2315	59849
	Nov	7245	1048	85978	5526	2068	73167	4717	2547	67113
	Dec	7245	1144	94367	5526	2257	80950	4717	2780	74610
2 <sup>nd</sup> Year	Jan	7245	1239	102851	5526	2445	88922	4717	3013	82340
	Feb	7245	1335	111431	5526	2634	97083	4717	3245	90302
	March	7245	1430	120106	5526	2822	105431	4717	3478	98497
	April	7245	1526	128876	5526	3011	113969	4717	3711	106924
	May	7245	1621	137742	5526	3200	122695	4717	3943	115584
	June	7245	1716	146703	5526	3388	131610	4717	4176	124477
	July	7245	1812	155760	5526	3577	140713	4717	4408	133602
	Aug	7245	1907	164912	5526	3765	150005	4717	4641	142960
	Sep	7245	2003	174160	5526	3954	159485	4717	4874	152551
	Oct	7245	2098	183503	5526	4143	169155	4717	5106	162374
	Nov	7245	2194	192941	5526	4331	179012	4717	5339	172430
	Dec	7245	2289	202475	5526	4520	189059	4717	5572	182718
3 <sup>rd</sup> Year	Jan	7245	2384	212104	5526	4708	199293	4717	5804	193239
	Feb	7245	2480	221829	5526	4897	209717	4717	6037	203993
	March	7245	2575	231649	5526	5086	220329	4717	6269	214979
	April	7245	2671	241565	5526	5274	231130	4717	6502	226198
	May	7245	2766	251576	5526	5463	242119	4717	6735	237650
	June	7245	2861	261682	5526	5651	253297	4717	6967	249334
	July	7245	2957	271884	5526	5840	264663	4717	7200	261251
	Aug	7245	3052	282181	5526	6029	276218	4717	7433	273400
	Sep	7245	3148	292574	5526	6217	287962	4717	7665	285782
	Oct	7245	3243	303062	5526	6406	299894	4717	7898	298397
	Nov	7245	3339	313645	5526	6594	312015	4717	8130	311244
	Dec	7245	3434	324324	5526	6783	324324	4717	8363	324324

**Case IV: Saving projection for four years**

Table 5.7, below, shows that if an individual wants to reach the targeted amount of 0.3 million PKR in four years, he has to deposit monthly 5,251 PKR with lowest, 3,785 PKR with average and 3,148 PKR with highest profit rate.



Table 5.7 Saving Projection for 4 years.

Years	Months	Lowest Profit Rate			Average Profit Rate			Highest Profit Rate		
		Initial Deposit	Amount of Profit	Net Amount	Initial Deposit	Amount of Profit	Net Amount	Initial Deposit	Amount of Profit	Net Amount
1 <sup>st</sup> Year	Jan	5251	68	5319	3785	125	3909	3148	148	3296
	Feb	5251	137	10707	3785	254	7948	3148	303	6747
	March	5251	207	16165	3785	383	12116	3148	458	10354
	April	5251	276	21692	3785	512	16412	3148	613	14115
	May	5251	345	27287	3785	641	20838	3148	769	18032
	June	5251	414	32952	3785	771	25393	3148	924	22104
	July	5251	483	38687	3785	900	30078	3148	1079	26331
	Aug	5251	552	44490	3785	1029	34891	3148	1234	30714
	Sep	5251	622	50362	3785	1158	39834	3148	1390	35252
	Oct	5251	691	56304	3785	1287	44905	3148	1545	39945
	Nov	5251	760	62315	3785	1416	50106	3148	1700	44793
	Dec	5251	829	68395	3785	1545	55436	3148	1855	49797
2 <sup>nd</sup> Year	Jan	5251	898	74544	3785	1675	60895	3148	2011	54956
	Feb	5251	967	80762	3785	1804	66484	3148	2166	60270
	March	5251	1037	87049	3785	1933	72201	3148	2321	65740
	April	5251	1106	93406	3785	2062	78048	3148	2477	71364
	May	5251	1175	99832	3785	2191	84024	3148	2632	77144
	June	5251	1244	106327	3785	2320	90129	3148	2787	83080
	July	5251	1313	112891	3785	2450	96363	3148	2942	89170
	Aug	5251	1382	119524	3785	2579	102726	3148	3098	95416
	Sep	5251	1451	126226	3785	2708	109218	3148	3253	101817
	Oct	5251	1521	132998	3785	2837	115840	3148	3408	108373
	Nov	5251	1590	139838	3785	2966	122591	3148	3563	115085
	Dec	5251	1659	146748	3785	3095	129471	3148	3719	121951
3 <sup>rd</sup> Year	Jan	5251	1728	153727	3785	3224	136480	3148	3874	128974
	Feb	5251	1797	160776	3785	3354	143618	3148	4029	136151
	March	5251	1866	167893	3785	3483	150885	3148	4184	143483
	April	5251	1936	175079	3785	3612	158282	3148	4340	150971
	May	5251	2005	182335	3785	3741	165807	3148	4495	158614
	June	5251	2074	189660	3785	3870	173462	3148	4650	166413
	July	5251	2143	197054	3785	3999	181246	3148	4805	174366
	Aug	5251	2212	204517	3785	4129	189159	3148	4961	182475
	Sep	5251	2281	212049	3785	4258	197201	3148	5116	190739
	Oct	5251	2351	219651	3785	4387	205373	3148	5271	199159
	Nov	5251	2420	227321	3785	4516	213673	3148	5427	207734
	Dec	5251	2489	235061	3785	4645	222103	3148	5582	216464
4 <sup>th</sup> Year	Jan	5251	2558	242870	3785	4774	230662	3148	5737	225349
	Feb	5251	2627	250748	3785	4903	239350	3148	5892	234389
	March	5251	2696	258696	3785	5033	248167	3148	6048	243585
	April	5251	2766	266712	3785	5162	257113	3148	6203	252936
	May	5251	2835	274798	3785	5291	266189	3148	6358	262442
	June	5251	2904	282952	3785	5420	275393	3148	6513	272104
	July	5251	2973	291176	3785	5549	284727	3148	6669	281921
	Aug	5251	3042	299469	3785	5678	294190	3148	6824	291893
	Sep	5251	3111	307832	3785	5807	303782	3148	6979	302020
	Oct	5251	3180	316263	3785	5937	313503	3148	7134	312302
	Nov	5251	3250	324764	3785	6066	323354	3148	7290	322740
	Dec	5251	3319	333333	3785	6195	333333	3148	7445	333333



### Case V: Saving projection for five years

Table 5.8, below, shows that if an individual wants to reach the targeted amount of 0.3 million PKR in four years, he has to deposit monthly 5,251 PKR with lowest, 3,785 PKR with average and 3,148 PKR with highest profit rate.

Table 5.8 Saving Projection for 5 years.

Years	Months	Lowest Profit Rate			Average Profit Rate			Highest Profit Rate		
		Initial Deposit	Amount of Profit	Net Amount	Initial Deposit	Amount of Profit	Net Amount	Initial Deposit	Amount of Profit	Net Amount
1 <sup>st</sup> Year	Jan	4077	53	4130	2802	92	2894	2284	107	2391
	Feb	4077	107	8314	2802	188	5884	2284	220	4895
	March	4077	160	12551	2802	284	8969	2284	332	7512
	April	4077	214	16843	2802	379	12149	2284	445	10241
	May	4077	268	21188	2802	475	15426	2284	558	13083
	June	4077	321	25586	2802	570	18798	2284	670	16037
	July	4077	375	30039	2802	666	22265	2284	783	19104
	Aug	4077	429	34545	2802	762	25828	2284	896	22284
	Sep	4077	483	39104	2802	857	29487	2284	1008	25576
	Oct	4077	536	43718	2802	953	33241	2284	1121	28981
	Nov	4077	590	48385	2802	1048	37091	2284	1234	32499
	Dec	4077	644	53106	2802	1144	41037	2284	1346	36129
2 <sup>nd</sup> Year	Jan	4077	697	57880	2802	1240	45078	2284	1459	39872
	Feb	4077	751	62708	2802	1335	49215	2284	1572	43728
	March	4077	805	67590	2802	1431	53447	2284	1684	47696
	April	4077	859	72526	2802	1526	57775	2284	1797	51777
	May	4077	912	77515	2802	1622	62199	2284	1909	55971
	June	4077	966	82558	2802	1718	66718	2284	2022	60277
	July	4077	1020	87655	2802	1813	71333	2284	2135	64696
	Aug	4077	1073	92805	2802	1909	76043	2284	2247	69227
	Sep	4077	1127	98010	2802	2004	80849	2284	2360	73871
	Oct	4077	1181	103267	2802	2100	85751	2284	2473	78628
	Nov	4077	1234	108579	2802	2196	90748	2284	2585	83497
	Dec	4077	1288	113944	2802	2291	95841	2284	2698	88479
3 <sup>rd</sup> Year	Jan	4077	1342	119363	2802	2387	101029	2284	2811	93574
	Feb	4077	1396	124836	2802	2483	106314	2284	2923	98782
	March	4077	1449	130362	2802	2578	111693	2284	3036	104102
	April	4077	1503	135942	2802	2674	117168	2284	3149	109534
	May	4077	1557	141576	2802	2769	122739	2284	3261	115080
	June	4077	1610	147263	2802	2865	128406	2284	3374	120738
	July	4077	1664	153004	2802	2961	134168	2284	3487	126508
	Aug	4077	1718	158799	2802	3056	140026	2284	3599	132391
	Sep	4077	1771	164648	2802	3152	145979	2284	3712	138387
	Oct	4077	1825	170550	2802	3247	152028	2284	3824	144496
	Nov	4077	1879	176506	2802	3343	158172	2284	3937	150717
	Dec	4077	1933	182516	2802	3439	164412	2284	4050	157051
4 <sup>th</sup> Year	Jan	4077	1986	188579	2802	3534	170748	2284	4162	163497
	Feb	4077	2040	194696	2802	3630	177179	2284	4275	170056
	March	4077	2094	200867	2802	3725	183706	2284	4388	176728
	April	4077	2147	207091	2802	3821	190329	2284	4500	183513

4 <sup>th</sup> Year	May	4077	2201	213369	2802	3917	197047	2284	4613	190410
	June	4077	2255	219701	2802	4012	203861	2284	4726	197419
	July	4077	2308	226087	2802	4108	210770	2284	4838	204542
	Aug	4077	2362	232526	2802	4203	217775	2284	4951	211777
	Sep	4077	2416	239019	2802	4299	224876	2284	5064	219125
	Oct	4077	2470	245566	2802	4395	232072	2284	5176	226585
	Nov	4077	2523	252166	2802	4490	239364	2284	5289	234158
	Dec	4077	2577	258820	2802	4586	246751	2284	5402	241843
5 <sup>th</sup> Year	Jan	4077	2631	265528	2802	4681	254234	2284	5514	249642
	Feb	4077	2684	272289	2802	4777	261813	2284	5627	257553
	March	4077	2738	279104	2802	4873	269487	2284	5739	265576
	April	4077	2792	285973	2802	4968	277257	2284	5852	273712
	May	4077	2845	292896	2802	5064	285122	2284	5965	281961
	June	4077	2899	299872	2802	5159	293083	2284	6077	290323
	July	4077	2953	306902	2802	5255	301140	2284	6190	298797
	Aug	4077	3007	313986	2802	5351	309292	2284	6303	307384
	Sep	4077	3060	321123	2802	5446	317540	2284	6415	316083
	Oct	4077	3114	328314	2802	5542	325883	2284	6528	324895
	Nov	4077	3168	335559	2802	5638	334322	2284	6641	333820
	Dec	4077	3221	342857	2802	5733	342857	2284	6753	342857



### 5.2.2. SECP GUIDELINES FOR MODARABA BUSINESS

In case of Pakistan, any institution or organization doing the practice of Modaraba has to register with Securities and Exchange Commission of Pakistan (SECP) as a *Modaraba* company. *Modaraba* companies are required to register as a corporate body under "Companies Ordinance 1984". These companies are administered by the Registrar of Modaraba under the "Modaraba Companies and Modaraba (Floating & Control) Ordinance 1980". According to this ordinance, *Modaraba* can be for a fixed period of time or for an indefinite period. Purpose of *Modaraba* can also be specific or it may be multi-purpose *Modaraba*. *Modaraba* business provides competitive *halal* profits as it is fully exempted from income tax. The Modaraba is created through public subscription (IPO) and listed on stock exchange(s). The GOP has constituted a Religious Board which certifies that the business to be undertaken by a Modaraba is not against the Islamic principles.

Fig 5.2, below, showing the steps required to form a Modaraba Company (MC). MC is required to have a paid-up capital of Rs. 2.5 million for registration with Registrar of Modaraba (RM) if it is to engage solely in floatation and management of a Modaraba. If it is to engage in other business, the limit of paid-up capital is to be no less than Rs. 7.5 million. RM is appointed by GOP for the purpose of Modaraba ordinance. It is necessary for a MC to register with RM for operations.



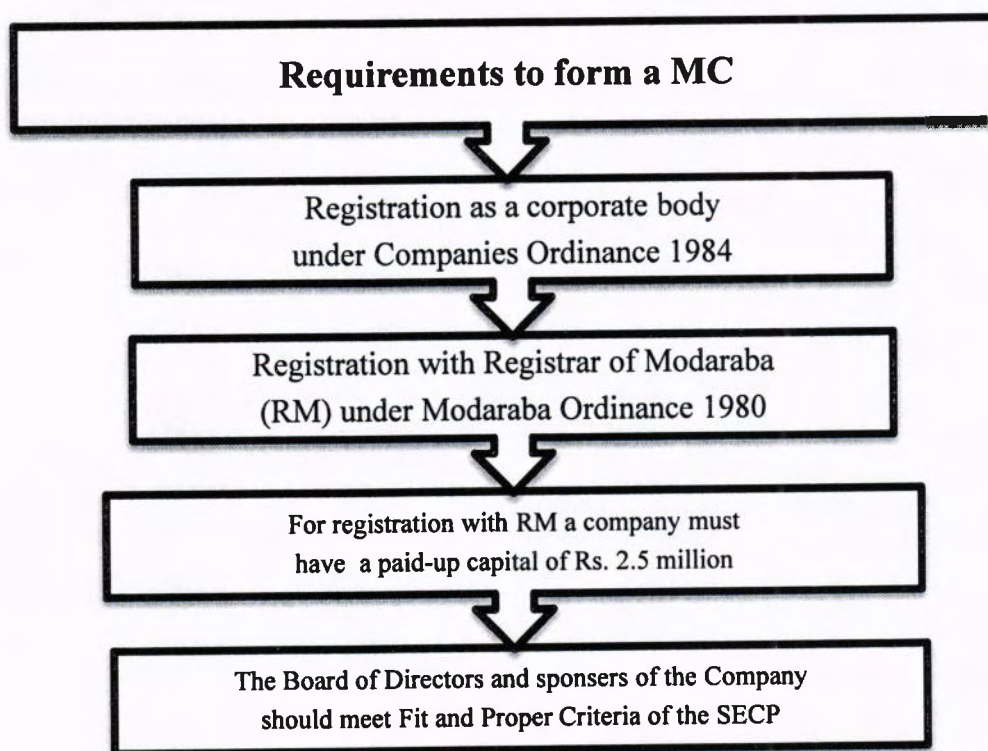


Fig 5.2, Flow chart of steps to form a Modaraba Company

The board of directors, officers, employees and sponsors of MC should meet “*Fit and Proper Criteria*” of SECP. None of them has been convicted of deception, committed breach of trust or offended moral turpitude.

## SAVINGS AND INVESTMENT PLAN

Any business activity that is not repugnant to Islam is considered a Modaraba business. Modaraba companies can invest accumulated funds through Islamic financial instruments like *Musharakah*, *Murabaha*, *Ijarah* and other *riba*-free modes of

finance. It can also invest in *riba*-free certificates. These are Certificates of Modaraba, Certificates of *Musharakah*, term Finance Certificates on *Musharakah* basis, Sukuk etc.

MC can also trade in project financing, import, export, export financing, services and manufacturing enterprises of any nature etc.

## THE INVESTMENT SCHEMES ISSUED BY MODARABAS

### 1. Investment in Certificates of Modaraba

A. Initial Public Offering: The general public, after carrying out due diligence of management and prospectus may subscribe to certificates of Modaraba when these are first time offered by the MC in primary market.

B. Direct Buying from the Stock Market: One may also invest in the Modaraba Certificates through buying them from registered stock broker. The Modaraba Certificates are quoted and traded on the stock exchange(s) like shares of other listed companies.

### 2. Investment in non-interest bearing finance instruments or schemes

MC's are offering various *riba*-free certificates. These certificates are approved by the Religious Board and the Registrar Modarabas. The investment schemes launched by Modarabas are on profit and loss sharing basis and rate of return varies based on the periodic profitability of the business of the Modaraba.

### 5.2.3 CRITICAL REVIEW OF MEEZAN LABBAIK

Meezan Bank has launched “Meezan Labbaik” in 2009. It was started with the aim to facilitate customers for performing Hajj and Umrah with comfort and peace of mind. On opening a Meezan Labbaik account, Meezan Bank facilitates the customers for all matters related to the Holy act of performing Hajj or Umrah and provides one-stop facilities including Visa processing, ticketing through a designated travel agent, meet and assist, hotel reservations, Ziyaraat and other travel arrangements. Meezan Labbaik allows customers to save money to perform Hajj or Umrah or avail an installment plan to pay over a period of time. It is also available to customers who want to make the full payment upfront and proceed immediately for Hajj / Umrah.

Meezan Labbaik consisting of two packages is as follows:

1. Labbaik Travel Aasan

It is based on spot payment as well as the option of payment in installments.

2. Labbaik Savings Aasan

It is deposit account for Umrah & Hajj based on Mudarabah.

Meezan Labbaik manages pilgrimage through several private tour operators. These tour operators are charging more than twice the government is charging. It has raised the Hajj cost. Even it is difficult for middle income people to afford their package.

Labbaik Travel Aasan offers depositors to pay in installments. Depositors have to return the installments within limited period. Also, depositors have to bear the additional cost of verifications and credit assessments. Bank works as an agent between Hajj

applicants and private tour operators. Only limited people from high income group can take benefit from it.

In sum, we can conclude that people here are in great need of an institution which can be helpful for them not only for gradual savings but also can manage least cost Hajj. Our proposed institution has the following advantages:

- Least cost management of Hajj is possible when we develop subsidiaries in those fields which are directly related to Hajj arrangements. These can be in the fields of land & buildings, hoteling, food & caterings, clothing, telecommunications, etc.
- These subsidiaries will earn profit by providing services to other peoples. But, in the Hajj season these will provide services to arrange better and least cost Hajj. This reduction in Hajj cost will be helpful for many people who wish to offer Hajj.
- Also, Projections about savings can help people to make prior arrangements for pilgrimage.



## CHAPTER 6

### CONCLUSION & POLICY RECOMMENDATIONS

#### 6.1 CONCLUSION

It is not easy for majority of the people in Pakistan to save purposefully for Hajj. Desire to visit the house of Allah once in their lifetime is inherent in all Muslims. They try to save money for many years and wait for the time when they can afford the expenses of Hajj journey. To fulfill their wish for Hajj, many households participate in traditional saving techniques e.g. *committees*, as discussed above. These kind of saving techniques are considered a type of hording money, but this is a common practice in the masses.

It means a large amount of money remains idle in the economy which is harmful for the economy like Pakistan. Development process needs rapid increase in investment. Investment requires mobilization of savings, which in turn requires institutional arrangement. Hence, we need such an arrangement if we want a better management of Hajj obligation and to make it easy and accessible for people.

TH of Malaysia as an Islamic Financial Institution has mobilized savings of Malay Muslims and operated an investment fund in an Islamic way successfully. It has managed the resources in an efficient manner and these funds are utilized in the fields of industry, agriculture, commerce, real estate, plantation and transportation in conformity with Shari'ah principles. TH investment in real sector has played an important role in the

economic development of Malaysia. It not only provides the financial assistance to the Malay Pilgrims but also creates employment opportunities in different sectors of the economy.

SWOT analysis of TH brings to light the important factors of strengths, weaknesses, opportunities and future challenges. These factors are explained in terms of the political, psychological, economic, social and religious factors. These factors require deep investigation in case of Pakistan to draw lessons of experience. Institutions based on the model of TH can motivate Muslims in other countries to increase savings with institutional means for the purpose of Hajj. This kind of motivation can be expected to enhance mass participation in the development process via savings mobilization and capital accumulation.

Despite its success, this model has not yet been replicated in other Muslim countries. So it is worth exploring some of the underlying causes and factors which can serve as guidelines and lessons to be drawn by for other member countries of the Organization of Islamic Conference (OIC).

The descriptive analysis of contemporary position of Hajj management of Pakistan has important implications for the need of institutional arrangements. The study suggests need for such an institution that can motivate people to save for the Hajj. Through such an arrangement, we will be able to use their savings for investment and capital growth. This increase in investment process in turn will boost the development process of Pakistan.

## 6.2 POLICY RECOMMENDATIONS

The SWOT analysis of TH implies replication of TH Model in the other Islamic countries. The descriptive analysis of contemporary position of Hajj management of Pakistan has important implications for the need of institutional arrangements. In this regard, the study recommends the following arrangements:

1. GOP should make a comprehensive plan for establishment of an institution which caters both religious and financial needs of Muslims of Pakistan.
2. GOP should have to make amendments in the constitution about the Hajj management of Pakistan. GOP should figure a semi-government organization by merging the Hajj directorate of MORA & IH with a Modaraba Company.
3. GOP should administer proposed organization with supervision of the Minister in charge of MORA & IH. Representation of the government should be in board of directors of said organization by appointing a member from the Ministry. Welfare of pilgrims should be observed.
4. Chairman and members of board should be appointed from private sector. They should possess strong technical background of required knowledge.
5. Shari'ah advisory committee should be formed to address the practical issues related to Islamic tenets. Prominent religious scholars from major sects of Muslims (*Hanafi, Shia and Ahl e Hadith*) should be taking into service.
6. Muslims of Pakistan should be provided with saving services specifically for Hajj. There should be separate arrangements for receiving deposits from different groups of people. The practice of regular deductions from salaries can be adopted for job

holders in both public and private sectors. Students, old citizens and pensioners should be given due attention in this regard.

7. Major part of investments should be in real sector not only to gain maximum returns but also to participate in economic development of the country. Investment modes should be in accordance with Shari'ah principles of finance.
8. To economize cost of Hajj, arrangements for pilgrimage should be made with coordination of wholly-owned subsidiary companies in related fields.
9. The role of mass media should be activated for the purpose of aside publicity.



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