Measuring the Effectiveness of Zakat in Alleviating Pakistan's Poverty: a Revisit

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Abstract

The article is written with the aim to investigate Pakistan's zakat effectiveness in alleviating poverty using an improvised index known as the Zakat Effectiveness Index (ZEIN).The study develops an index (ZEIN) to measure such effectiveness. The same Index can easily be extended to measure zakat effectiveness in other Muslim countries as well. In this paper Pakistan is selected from many Muslim countries for three reasons: first, the required data are available for computing ZEIN; second, to apply the newly developed version of zakat Index known as ZEIN; and, third, to revisit the performance of zakat recipients (the poor and needy) in the recent years and compared it with that of the previous years. Specifically, with the results are at our disposal the Pakistan's initiative to alleviate poverty using zakat as a tool can be measured. Unlike the previous study (Abdullah et at, 2015) where the Index had three (3) hypothetical cases, in the present study there is one (1) more hypothetical case being added to make it four (4). This is the first improvement made on the previous version of the index, namely the Basic Needs Deficiency Index (BDNI). The second improvement made is on the number of items included to the poor and needy expenditures on basic needs. While in the previously mentioned study the items included were five (5), namely food, clothing, housing (rental), medical and education, in this study one (1) more item, namely transportation, has been added to make it six (6). The third improvement made is related to the number of observations. While in the previous study only two (2) observations were made (2004/05 and 2005/06), the present study has been extended to include two more observations; 2007/08 and 2011/12. As such, the results and findings of the study are reckoned to be more conclusive. Specifically, the value of computed index has shown some improvements, although diminutive, implying that both the poor and needy were coping well to meet their consumption of basic needs. This study provides the policy makers in Pakistan to ascertain the effectiveness of zakat. Given this result, one policy implication emerges; zakat must be made mandatory by the government to the eligible zakat payers. The reason being, as zakat is the main source of "income" to the needy and poor, clearly zakat helps them to improve their quality of life. Finally, work of this nature, to be best of our knowledge, has not been developed elsewhere.

Keywords: *Pakistan, Poverty alleviation, Zakat, Zakat effectiveness index (ZEIN)*

1. Introduction

To be in line with the Millennium Development Goal (MDG) where by 2015 the world's extreme poverty and hunger will be eradicated, the Pakistani Government has formulated its major policies to reduce poverty level to 21 percent by 2010, and subsequently to accomplish the target of reducing poverty level to 13 percent by 2015. In order to achieve the target, several poverty reduction and employment generation measures; placing zakat is high on the agenda, has been initiated. Apart from zakat other initiatives include schemes to support income, program to train human resource, and lady health workers. Although, these initiatives are noteworthy and commendable, what it fails to provide the poor and the needy are long-term alleviation from poverty and fulfillment of their most basic and immediate needs. Indeed, the greatest challenge and shortcoming these initiatives have is the fact that they do not reach out to all the people in need, and are only limited to few areas and geographical localities. For instance, a poor person in a certain condition is being supported through income support fund, yet, it is difficult for him to make ends meet due to high food prices. The situation becomes more severe if the cost for sending children to school or access to basic healthcare facilities are taken into account. In this respect, it is worth accepting that the needs of the poor vary, and that more focused approaches to allocation of resources are required of which zakat is the most preferred and practical.

2. Literature Review

2.1. Management of Zakat in Pakistan

To begin, during the presidency of Zia-ul-Haq as the President of Pakistan, the Zakat and Ushr Ordinance was introduced and enforced in 1980. At that time the State Bank of Pakistan was made responsible to channel to Central Zakat Fund whatever amount of zakat contributed by the zakat payers in Pakistan. This arrangement has undergone significant change when in 1999, by virtue of the Supreme Court issuance of a decree, the payment of zakat to the state was just voluntary.

With payments are now not made mandatory, and with large public mistrust, zakat contribution has experienced a dramatic change. Specifically, according to the World Bank (2007), while in 1980s its contribution to GDP was 0.3%, in 2002-03 it was merely 0.08%. This has subsequently lessened the number of zakat recipients to 1.6 million in 2003-04 from 1.7 million in

2001-02 [1]. However, according to [2], the recipients dwelling in the rural area received a little bit higher as compared to their counterparts living in urban area where NWFP/KPK recorded the highest with 5%, Baluchistan (3.9%), Punjab (1.4%) and Sindh (1.3%). This social-economic welfare phenomenon had not attracted studies to be conducted to investigate the effectiveness of those initiatives, especially the one that is related to zakat. This study is undertaken to fill up the gap, and thus provides the answer as how effective is zakat in alleviating poverty in Pakistan.

There are quite a number of studies on Pakistan's poverty. For example, [3] have reported that Pakistan with a total population of approximately 90 million has recorded huge number of people living under poverty (about 58.7%), of which 46% are living in rural area. In addition, it is also worth noting that 18% of the income of urban inhabitants was well below the internationally acceptable poverty line. In another study by [4], it has been shown that Zakat had significantly augmented the Pakistan's household welfare. Meanwhile, equally interesting, in the context of poverty alleviation, [5] argued that the distribution of zakat among the asnafs (recipients of zakat), which among others, includes the needy, poor, orphans, destitute and widows, had been quite momentous. Specifically, their results showed that the relationship between Zakat disbursement and poverty is opposite for not only short run but long run as well. In a related study by [6] it has been shown that zakat, if used as a tool, has the potential to combat poverty in Pakistan as zakat contributes approximately 7% to GDP. That alone enough to overcome the poverty-related problem.

Despite the sources of Zakat are quite impressive, the collection seems to be quite low but sustainable. This naturally is in contradiction to the general believe that the ruling issued by the Supreme Court in 1999 on the non-mandatory of zakat payment to the state will have negative effect on collection of zakat in Pakistan. With 1996 and 2001 being the only exceptions, in other years the collection of zakat showed a modest increasing trend. More or less, the collection trend is predicted to be quite close to, if not better than, what it used to be where about 63 percent of the adult population pay some zakat [7].For ease of reference, the share of zakat for each province and Islamabad is the followings: Punjab (56.95%), Sindh (23.53%), KPK (13.78%), Baluchistan (5.11%) and Islamabad (0.63%).

3. The Methodology

The two most deserving recipients of zakat are the needy/fuqara and poor/masakin where they will be the subject of this study's assessment on the effectiveness of zakat distribution in Pakistan's four (4) provinces.

3.1. Mathematical Expositions of the ZEIN

Whereas the old version of ZEIN; the BNDI, is a pioneering work of [8,9,10,11], in this paper only the last equation of the mathematical model is exhibited, as shown below.

$$\text{ZEIN} = 1 - \frac{\dot{G}_Z}{\dot{E}_B} \qquad (1)$$

To illustrate the way in which how the ZEIN helps in measuring the zakat effectiveness four different hypothetical cases are shown below.

- *Case 1*: Given $\dot{G}_Z = 1$ and $\dot{E}_B = 1$, this implies that the *ZEIN* is 0, meaning zakat is barely effective in satisfying the expenditures required for G1 and G2 to survive. In other words, the amount of zakat received by the poor and needy is JUST SUFFICIENT to cover their basic needs.
- *Case 2*: If $\dot{G}_Z < 0$ and $\dot{E}_B = 1$, then *ZEIN* is > 0, which implies that the amount of zakat distributed by the government is

ineffective. That is to say, they (G1 and G2) received as good as NEGATIVE amount of zakat from the government with the implication that they had to borrow money to make their ends meet (to meet the basic needs).
- *Case 3:* If $0 < \dot{G}_Z < 1$ and $\dot{E}_B = 1$, then *ZEIN* is $0 < \text{ZEIN} < 1$, which implies that the amount of zakat distributed by the government is effective. To put it differently, the amount of zakat received by G1 and G2 is MORE THAN SUFFICIENT to cover their basic needs.
- *Case 4:* If $\dot{G}_Z = 0$ and $\dot{E}_B = 1$, then *ZEIN* is $= 1$, which implies that the government is NOT EXTENDING any amount of zakat (or zero amount of zakat) to the zakat recipients with the consequences that they had to rely fully on the income earned from doing odd jobs or "begging" to make their ends meet (to meet the basic needs).

Based on the above-shown hypothetical cases, we can safely conclude that the ZEIN stretches from negative to zero (0), one (1) and any positive values. A point worth noting here is that unlike our previous study [12] where the Index had three (3) hypothetical cases, in the present study there is one (1) more hypothetical case being added to make it four (4). In fact, this is the first improvement made on the previous version of the Index, namely the Basic Needs Deficiency Index (BDNI). The second improvement made is on the number of items included to the poor and needy expenditures on basic needs. While in the previously mentioned study the items included were five (5), namely food, clothing, housing (rental), medical and education, in this study one (1) more item (transportation) has been added to make it six (6). The third improvement made is related to number of observations. While in the previous study only two (2) observations were made (2004/05 and 2005/06), the present study has been extended to include two more observations; 2007/08 and 2011/12. Hence, with the improvements made on the index, the results and its interpretations may be different from that of the previous study, but more conclusive.

4. Results and Discussions

The results of the ZEIN as the measurement of poverty alleviation effectiveness in Pakistan are summarized as follows:

Analysis 1: Pakistan as a whole

Even though Zakat contribution was not made mandatory, thanks to the 1999 Supreme Court verdict, the contribution of the upper and middle 20% of the population had gradually enlarged. This has then been translated into more amount of zakat being received by the zakat recipients, particularly the poor and needy. To a large extent, it had contributed to sufficient amount of zakat disbursed by the zakat institution to the poor and needy in Pakistan even to cover their expenditures on basic needs. Perhaps, this was the main reason that the ZEIN values were in recent years distancing from one (1).

Analysis 2: By Groups of Zakat Recipient

It is quite evident from this study that for all periods, the ZEIN for G1 (the needy) was much better than G2 (the poor). In general, the results showed here are very much in conformity with that of [13], albeit the items of basic needs have been increased from five to six. One reason can be advanced here. That is to say, the G1 and G2 groups' expenditures are much higher than the amount of zakat that the government extended to them. However, assuming that the amount of zakat received by the two groups is the same, the result tends to suggest that G1 suffers less because the money they spent on basic needs is not as much as G2. To put it differently, for G1 to survive, the amount of zakat received by them is sufficient to satisfy most of the expenses needed.

Analysis 3: By Province

As the results from the ZEIN computation show, G1 of all Provinces were fluctuating and smaller than G2 over the periods, while that of G2 were quite stable. This implies that during 2004-12 period the amount of zakat received by G1 had mitigated them

to bridge the gap between zakat and expenditures more than their counterparts, namely G2.

Analysis 4: By Urban-Rural

The ZEIN for Urban-G1 was consistently smaller than ZEIN for Urban-G2; irrespective of provinces and periods. This can be interpreted to mean that the Urban-G1 received an amount of zakat that was more than sufficient to cover their expenditure on basic needs. However, if a comparison is made between URBAN-G1 and RURAL-G1, with Sindh being the exception, in other Provinces the difference was not so significant and hence implying that the amount of zakat received by poor households living in Sindh's URBAN-G1 had effectively relieved them from the expenditure–zakat gap.

5. Conclusion

To sum up, this paper has made five major contributions. First, it formulates a new mathematical model to gauge whether zakat distribution in Pakistan is effective. Second, unlike the earlier work by [14], this study has made three (3) major improvements as discussed in the Methodology section. Hence, owing to the improvements made on the index, the results and its interpretations may be different from that of the previous study, but more conclusive. Third, with the three improvements made, the results of the ZEIN have significantly changed and more reliable to determine zakat effectiveness in Pakistan. Fourth, the results derived from the new ZEIN computation have managed to explain zakat effectiveness in Pakistan's alleviating poverty initiative. The reason being, one more item (transportation) has been added to the list of basic needs. Finally, the ZEIN that is being used here to compute zakat effectiveness in Pakistan can also be applied to measure other Muslim countries' effectiveness of zakat.

6. Endnotes

The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. Also note that country-level Gini coefficients cannot be aggregated into regional or global Gini's, although a Gini coefficient can be computed for the aggregate.

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