



## **PROVIDING FOR THE RESOURCE SHORTFALL FOR POVERTY ELIMINATION THROUGH THE INSTITUTION OF ZAKAT IN LOW INCOME MUSLIM COUNTRIES**

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### **ABSTRACT**

This paper is an attempt to estimate the resource shortfall and potential *zakat* collection for poverty elimination in the low-income Muslim countries. The paper estimates the resource shortfall by utilizing the international poverty lines (under USD1 and 2) headcount and poverty gap index estimated by the World Bank. Potential *zakat* collection has been estimated by utilizing Kahf's (1989) definitions of *zakatable* items with some modifications. The paper finds that some of the low-income Muslim countries can meet their resource gap under USD1 international poverty line with potential *zakat* collection. However, other countries, mostly belonging to Africa, cannot meet their resource shortfall from their potential *zakat* collection.

JEL Classification: Z12, I38, I32

Key words: *Zakat* collection, Poverty elimination, Resource shortfall

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### **1. INTRODUCTION**

The prevalence of widespread poverty in the midst of plenty is undeniably the most serious challenge to the world today. It is a fact that, at the start of the 21st century, about one-fifth of humanity subsists on less than USD1 a day and almost one-half lives on less than USD2 a day. It

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is a fact that the gap between the rich and the poor has widened over the years. Eighty percent of global GDP accrues to only 20 percent of the world's population (living in OECD countries) and the remaining 80 percent of the people only have a 20 percent share of the world income. The average income in the richest twenty countries is 37 times the average of the poorest twenty (World Bank, 2001).

Poverty is a complex and multi-dimensional phenomenon, which cannot be defined conclusively. It goes beyond the notion of income, and encompasses social, economic and political deprivations. The poor lack basic needs<sup>1</sup> and are deprived<sup>2</sup> of the life that people value. They have little or no participation in ordinary social and economic life.

Concern for poverty is not new, and has been the focus over the centuries by historians, sociologists and economists. Its causes have been identified, ranging from deficiencies in the administration of income support, to injustice of the social and economic system. Various measures have been put forth, from the reform of social security systems to changes in the form of socioeconomic systems. Since poverty is a multidimensional problem, solutions to poverty require a comprehensive set of well-coordinated measures. A global war against poverty, in addition to domestic efforts, demands assistance of the rich countries to the poor countries.

Developed countries of the world were able to reduce absolute poverty to its minimum level through the implementation of social security systems. Such comprehensive social security systems are absent from Third World countries, and therefore, developing countries are housing most of the poor. In the case of Muslim countries, the institutions of *zakāt* and *sadaqāt* are part of the socio-economic framework that could play a similar role, in a limited way.

For example, in the early Islamic period,<sup>3</sup> the institutions of *zakāt* and *sadaqāt* were strong and the poor and the needy were helped through these institutions. The Holy Prophet had predicted that there would be such abundance of wealth in the Muslim community that the group of people who deserve alms and charity will be entirely eliminated.

Waritha bin Wahb Khuzai has reported the Holy Prophet as saying, "Receive the alms, for a time is to come when a person will have to roam with alms in his hand, but there will be none to accept it. Every

person will say to the alms-giver: If you had come here yesterday, I would have accepted it. But today I am not in need” (Bukhari, 1961).

These sayings came true. The Muslims had so much wealth that there were none to receive alms. But it happened at that time when Muslims had a strong government, a just ruler and a right caliphate. All these things happened during the reign of Umar bin Abdul Aziz (Qardawi, 1981).

The *zakāt* institution has been neglected by many Muslim countries. Presently, few Muslim countries have introduced the system of *zakāt* officially, but not implemented to its true spirit (not all *zakāt* items are under the *zakāt* net), while for others, this institution does not exist. If this institution is revived and fully implemented,<sup>6</sup> perhaps absolute poverty can be rooted out. Thus, an objective of the study is to estimate the resource shortfall for poverty elimination in low-income Muslim countries<sup>1</sup> for which data are available. Another objective of this study is to estimate the potential *zakāt* collection that can provide for the resource shortfall for poverty elimination.

## 2. REVIEW OF THE RELEVANT LITERATURE

Different aspects of *zakāt* that vary from macroeconomic aspects to *fiqh* (juristic) issues have been discussed theoretically in the literature (for example, see Shirazi, 1996; Ahmad, 1989; Sadeq, 1994; Siddiqi, 1996; and Iqbal, 2002). However, few empirical studies are available. Most of the empirical studies focused on the relationship of *zakāt* to poverty and income distribution. Salleh and Ngah (1981) discussed the impact of *zakāt* (*ushr*) on paddy farmers in Malaysia. They found that *zakāt* actually increased inequality because the burden falls on the paddy-producing agricultural households.

Faiz (1990) was concerned with the evaluation of the administrative structure and monitoring of the social and economic impact of the *zakāt* and *ushr* system in Pakistan. His study found that the sum disbursed per household for subsistence as well as for rehabilitation was too small. He pointed out that only two percent of the recipients of *zakāt* declared that their subsistence needs were completely satisfied and 59 percent stated that it only partially fulfilled their needs, while 36 percent said

that their needs were not satisfied at all. In the case of rehabilitation grants 16 percent of the recipients declared that the sum was sufficient for rehabilitation, while 20 percent considered as just sufficient, and 50 percent said that the sum was insufficient.

Faiz (1991) explored the possibilities of poverty eradication through the existing *zakat* system in Pakistan. He estimated the *zakat* and *ushr* potential for eradication of poverty. *Mustahqueen-e-Zakat* (MZ) were defined as the poor by the author. Based on his findings, MZ varied from 18.4 to 42.58 percent in 1988. The lower figure (18.4 percent) indicated the percentage of the poorest households while the higher figure (42.58 percent) includes households that were not apparently poor but they considered themselves to be poor. He concluded that in 1988 only 59 percent of the MZ were receiving *zakat* from the official sources but was still short of Rs7.89 to bridge the gap between their expenditures and income, while 41 percent were not receiving *zakat* and for them there was a need for an additional Rs.7.69 billion. Thus the total shortfall was estimated for all the MZ to be Rs.15.58 billion. He pointed out some drawbacks of the present *zakat* system and gave some suggestions for the improvement of the system to meet the goal of eradication of poverty. Ali (1985) concluded that if the entire *ushr* collection is used in cash payments to the needy at the rate of Rs.50 per family per month, it can benefit 1.4 million or 44 percent of the poor families. Even if it is assumed that the grant of Rs.50 per month enables only half of the poor families to cross the poverty line, the *ushr* scheme alone is capable of reducing the incidence of rural poverty by 22 percent.

Shirazi (1994) discussed the effects of *zakat* and *ushr* on poverty alleviation. The study found that *zakat* alleviated poverty about 2.0 percent in 1987-88. Hussain and Shirazi (1994) found that the system of *zakat* practiced in Pakistan was not capable to bridge the poverty gap. Nevertheless, the poverty gap could be reduced if *zakat* is collected to its potential. Shirazi (1996) evaluated the performance of *zakat* and *ushr* system in Pakistan using the *Household Integrated Economic Survey 1990-91* (Pakistan, 1991). He critically reviewed the system of *zakat* which covered the background of the system, collection and distribution of *zakat*, its targets and coverage, and the possibility of poverty eradication through *zakat*. Shirazi (1999) provided the analysis

of the trend in poverty alleviation through *zakāt* in Pakistan. The study found that the impact of the present system of *zakāt* on poverty alleviation tended to decline during the period 1987-88 to 1993-94.

Yasin and Tahir (2002) mainly focused on the implication of abolition of interest and enforcement of *zakāt* on the reduction of income inequality and alleviation of poverty within the general equilibrium framework. The study used the fiscal year 1989-90 as the base year and aggregated households into four groups according to their income and expenditure levels, namely low-income, lower-middle income, higher-middle income and high-income groups. It also simulated four perspective plans to compare the projected estimates, namely, (i) maintaining the status quo; (ii) introduction of *zakāt* only; (iii) replacement of interest by profit sharing; and (iv) a full-scale Islamization plan that admits *zakāt* and profit sharing simultaneously. The study found that income distribution would worsen under plan (i), while the full Islamization plan produced the best results for alleviating poverty and income distribution compared to the other two partial Islamization plans. However, there was not much improvement in the shares of the income groups compared to the base year, and therefore, the results were not encouraging due to the short time span of ten years, which was not able to solve the problem of acute inequality. However, it was felt that the discouraging results were not due to inefficiency during that period.

However, Hasan (2002) pointed out that the classification of the households into four groups was based on income of the households, rather than according to *niṣṣab*, which was not suitable for analyzing the impact of *zakāt* on society. Shirazi (2003) presented the redistributive effects of *zakāt* across the income groups and regions in Pakistan by utilizing the data collected in *Household Integrated Economic Survey 1996-97*, *Economic Survey 1998-1999* (Pakistan, 1999) and *Annual Report 1999-2000 of State Bank of Pakistan* (Pakistan, 2000). The classification of the income groups were based on recipients and non-recipients of *zakāt*. The study found that with the existing *zakāt* system, annual average income per household in the first income group increases in the range of 0.20 percent to 1.20 percent. However, the potential *zakāt* collection and distribution has significant impact on the household

income in the lower-income group, ranging from 10.63 percent to 29.23 percent. It could also affect the annual average income of the *zakat* payers in the range of about -1.0 percent to -6.38 percent. Therefore, *zakat* has its potential role but demands serious efforts on the part of the government.

Hasan (1997) used the basic needs gap index (BNGI) to measure the performance of seven selected Muslim countries<sup>7</sup> at three points in time – 1987, 1990, and 1994. He found no correlation between the BNGI and the GNP per capita or its rate of growth at any point during the selected periods. He suggested sustained, multi-dimensional efforts, especially of political will and action for the success of basic needs fulfillment. Shaban, Abu-Ghaida and Al-Naimat (2001) assessed the impact of Jordan's government programs, including food subsidies and cash transfers, on poverty alleviation in the 1990s. They found that food subsidies and cash transfers benefited the poor more than the non-poor. Furthermore, the Jordanian population benefited from the *National Aid Fund* assistance more in 1997 than in 1992. The *Development and Employment Fund* and the *Zakat Fund* also targeted the poor.

Most of the above-mentioned empirical studies mainly focused on poverty and income distribution. Only two studies namely, Faiz (1991) and Hussain and Shirazi (1994) examined the resources requirements for elimination of poverty and possibility of bridging the resource gap through *zakat*. However, their studies focused on only one country. So far, no study is available which has assessed the total resource requirements for elimination of poverty for low-income Muslim countries. Moreover, the potential of *zakat* proceeds needs to be estimated to see the possibility of providing the resource shortfall for poverty elimination. This paper is organised as follows. Section 2 provides review of the literature. Section 3 discusses the methodology and data set. Section 4 presents the extent of poverty-headcount and poverty gap index, while section 5 provides resource shortfall under USD\$1 and 2 international poverty lines. Section 6 estimates the potential *zakat* collection. Section 7 discusses the resource shortfall and potential *zakat* collection, while section 8 concludes.

### 3. METHODOLOGY AND DATA SET

The first step towards the measurement of poverty is the setting of the poverty line. After having decided the threshold expenditure (income), the next step is to see how many people are below the poverty line and the depth of the poverty. For precise estimates, national poverty lines and micro-data are required, which are not available to us. Therefore, we have to rely on poverty line and poverty indices reported in the *World Development Indicators 2004* (World Bank, 2004).

The World Bank has defined the international poverty line in terms of USD\$1 a day income (consumption). The population living below that level of consumption or income at 1993 prices, adjusted for purchasing power parity, is considered as poor. However, this definition is controversial among researchers. Pogge and Reddy (2003) were of the view that results reported in the *World Development Report* for 1990 and 2000/01 were neither meaningful nor reliable. This was because the World Bank used an arbitrary international poverty line unrelated to any clear concept of poverty. It employed a misleading and inaccurate measure of purchasing power parity that created serious and irreparable difficulties for international and intertemporal comparison of income poverty. Nevertheless, the USD\$1 and 2 a day poverty estimates given in the reports are useful only as indicators of global progress on the poverty front, and not at the country level. Others favour the use of the international poverty line for poverty assessment (see for example, Ravallion, Datt and Van de Walle, 1991; and Ravallion, 2003 for the rationale underlying the international poverty line).

The poverty gap is defined as the mean shortfall below the poverty line, expressed as a percentage of the poverty line. This reflects the depth of poverty as well as its prevalence. The poverty gap does not provide the total shortfall explicitly. For this purpose we will use the estimated poverty gap based on the international poverty line, and convert it into absolute figures for each country under study. This is calculated as follows: Average resource shortfall under USD1 = [(Poverty gap index) \* (poverty line USD1.08 at 1993 PPP) \*(total number of poor)] of the respective country. Similarly, average resource shortfall under USD2 is calculated by using USD2.15 at 1993 PPP. This will give us, on average,

the total amount shortfall which, if met entirely through *zakāt*, will bring the poverty incidence to zero in the Muslim country concerned. Since the paper also estimates the potential *zakāt* collection of each country which helps determine the extent to which *zakāt* can potentially eliminate poverty.

#### 4. EXTENT OF POVERTY IN LOW-INCOME MUSLIM COUNTRIES

The World Bank has been providing poverty estimates for a numbers of years. This is helpful in assessing the progress towards poverty alleviation at the global level. The Bank's estimates show that poverty slightly increased from 28.3 to 29.0 percent between 1987 and 1990, but it decreased to 24.0 percent by 1998. On the contrary, the number of absolute poor living on less than USD1 a day slightly increased from 1.183 to 1.198 billion due to population growth during the 1987-1998 period. Similarly, we can find variations on the poverty alleviation front across regions. East Asia and Pacific, Middle East and North Africa witnessed a decline in poverty both in terms of number of absolute poor and in terms of the share of people in poverty from 1987 to 1998. Although the share of poor people in poverty declined from 44.9 to 40.0 percent in South Asia during 1987 to 1998, yet the absolute number of poor people increased from 474.4 to 522.0 millions during the same period. Sub-Saharan Africa witnessed no change in its share of poor people, while the number of poor people increased from 217.2 to 290.9 millions during 1987 to 1998. In Europe and Central Asia, both the number of poor people and the share of people in poverty increased during the same period. (World Bank, 2001, Table 1).

The percentage of poor people under USD1 international poverty line, as reported in *World Development Indicators* (World Bank, 2004), in the 19 low-income Muslim countries for which data were available, was on average, 26.5 percent. Mali, Nigeria, Niger, Gambia and Sierra Leone are housing 72.8 , 70.2 , 61.4 , 59.0 and 57.0 percent of the poor, respectively. These results seem to be overestimated for the above-mentioned countries compared to their national poverty statistics, which were based on national poverty lines with the exception of Sierra Leone, which was under estimated. All these countries are in Africa. Most of the country results seem to be underestimated. However the results related to highly populated countries



TABLE 1  
Poverty in the Low-Income Muslim Countries

OI Countries	Population below national poverty line (%)	Survey Year	Population below USD1 a day (%)	Poverty gap at USD1 a day (%)	Population below USD2 a day (%)	Poverty gap at USD2 a day (%)
Azerbaijan	49.6	2001	3.7	< 1	9.1	3.5
Bangladesh	49.8	2000	36	8.1	82.8	36.3
Burkina Faso	45.3	1998	44.9	14.4	81	40.6
Cameroon	40.2	2001	17.1	4.1	50.6	19.3
Cote d'Ivoire	NA	1998	15.5	3.8	50.4	18.9
Gambia	48	1998	59.3	28.8	82.9	51.1
Indonesia	27.1 <sup>a</sup>	2002	7.5	0.9	52.4	15.7
Kyrgyzstan	NA	2001	< 2	< 0.5	27.2	5.9
Mali	63.8 <sup>b</sup>	1994	72.8	37.4	90.6	60.5
Mauritania	46.3	2000	25.9	7.6	63.1	26.8
Niger	63.0 <sup>c</sup>	1995	61.4	33.9	85.3	54.8
Nigeria	34.1 <sup>d</sup>	1997	70.2	34.9	90.8	59
Pakistan	32.6	1998	13.4	2.4	65.6	22
Senegal	33.4 <sup>e</sup>	1995	26.3	7	67.8	28.2
Sierra Leone	68	1989	57	39.5	74.5	51.8
Tajikistan	NA	1998	10.3	2.6	50.8	16.3
Turkmenistan		1998	12.1	2.6	44	15.4
Uzbekistan	27.5	2000	21.8	5.4	77.5	28.9
Yemen	41.8	1998	15.7	4.5	45.2	15

Source: World Bank (2004).

Note: NA: Not available, <sup>a</sup>Survey year 1999, <sup>b</sup>1998, <sup>c</sup>1989-93, <sup>d</sup>1992-93, <sup>e</sup>1992, <sup>f</sup>1995.

like Indonesia (7.5 percent), Pakistan (13.4 percent) and Bangladesh (8.1 percent), seem to be underreported compared to their national poverty lines (see Table 1). The poverty gap at USD1 a day is also reported in the same table. It shows that countries having higher shares of poverty have higher poverty gaps and therefore need much resources and efforts to overcome their poverty problem. Moreover, the share of poor people and the corresponding poverty gap under USD2 per day was also reported in Table 1. However, these estimates do not reflect the hardcore poor but those who are relatively poor.

#### 5. RESOURCE SHORTFALL FOR POVERTY ELIMINATION UNDER USD1 AND USD2 INTERNATIONAL POVERTY LINES

The average resource shortfall is calculated from the poverty gap index and international poverty line information as reported in the *World Development Indicators* (World Bank, 2004). Average resource shortfalls in absolute terms for the different countries under USD1 and 2 are reported in columns 4 and 5 of Table 2, respectively. Column 6 shows the average resource shortfall under USD1 as a percentage of the GDP. Most of the countries like Azerbaijan (0.02 percent), Cameroon (0.47 percent), Cote d'Ivoire (0.29 percent), Indonesia (0.04 percent), Kyrgyzstan (0.01 percent), Pakistan (0.28 percent), Tajikistan (0.48 percent), Turkmenistan (0.19 percent), Uzbekistan (0.84 percent) and Yemen (0.74 percent) have low resource shortfall. This is because of the under estimation of poverty under USD1 international poverty line and therefore, very low corresponding poverty gap. As we have mentioned earlier, for precise and correct results, national poverty lines and micro data at country level are needed, which, unfortunately, are not available to us. Resource shortfall for some countries is quite high. These countries are Sierra Leone (61.61 percent of GDP), Mali (61.35 percent), Niger (39.42 percent), Nigeria (33.75 percent) and Gambia (19.91 percent). Resource gap under USD2 as a share of GDP is reported in the last column of Table 2. For some countries (Sierra Leone and Mali), it is more than 200 percent of the GDP. The resource shortfall for all the countries under study at USD1, comes out to be 4.18 percent of their total GDP, while it is 36.09 percent under USD2 (See Table 2).

Table 2  
Resource Shortfall for Poverty Elimination under USD1 and USD2 Poverty Lines

1	2	3	4	5	6	7
Low-Income Muslim Countries	Survey Year	GDP (Million Dollars)	Resource shortfall under USD1 per annum (Million)	Resource shortfall under USD2 per annum (Million)	Resource shortfall under USD1 per annum as % of GDP	Resource shortfall under USD2 per annum as % of GDP
Azerbaijan	2001	5273	1.19	20.39	0.02	0.39
Bangladesh	2000	47106	1585.74	32538.41	3.37	69.07
Burkina Faso	1998	2522	286.30	2898.93	11.35	114.95
Cameroon	2001	8854	41.78	1158.52	0.47	13.08
Cote d'Ivoire	1998	12782	36.59	1177.87	0.29	9.22
Gambia	1998	417	83.01	409.89	19.91	98.30
Indonesia	2002	152226	58.95	14303.81	0.04	9.40
Kyrgyzstan	2001	1370	0.19	61.97	0.01	4.52
Mali	1994	1763	1081.56	4334.57	61.35	245.86
Mauritania	2000	977	20.52	351.01	2.10	35.93
Niger	1995	1881	741.41	3314.65	39.42	176.22
Nigeria	1997	30219	10200.20	44401.63	33.75	146.93
Pakistan	1998	62228	172.20	15383.56	0.28	24.72
Senegal	1995	4476	60.51	1251.04	1.35	27.95
Sierra Leone	1989	636	391.85	1337.05	61.61	210.23
Tajikistan	1998	1320	6.29	387.35	0.48	29.34
Turkmenistan	1998	2862	5.56	238.38	0.19	8.33
Uzbekistan	2000	13760	115.61	4378.82	0.84	31.82
Yemen	1998	6319	46.92	896.47	0.74	14.19
For all countries		356991	14936.40	128844.32	4.18	36.09

Source: Calculations are based on Table 1.

## 6. POTENTIAL AND ACTUAL COLLECTION OF *ZAK*• *T*

Few studies have been conducted to estimate potential *zakāt* collection in Muslim countries. Chowdhry (1991) estimated the potential of *ushr* for Pakistan. He took the average crop production and prices of the four groups, which are, food grains, cash crops, pulses and oilseeds. He excluded vegetables, condiments, fruits and cattle. He came up with an average of 11.142 billion Rupees, which was 1.54 percent of the GDP. However, he did not estimate the potential of total *zakāt* collection. Hussain and Shirazi (1994) estimated potential of *ushr* (about 1.0 percent of the GDP) for Pakistan. They also did not include cattle in their estimation and did not estimate the total *zakāt* potential for Pakistan.

Kahf (1999)<sup>9</sup> discussed some of the studies which were carried out in the past for the potential *zakāt* estimation for some Islamic countries. He referred to *zakāt* estimates made by Sami Ramaadan Suliman for Egypt in 1973. His estimation was up to 6.1 percent of the GDP, that he considered as an overestimation. Similarly, he also reported the *zakāt* estimation (3.0 percent of GDP) for Sudan in 1982 by Muhammad Hussain Awad, which according to Kahf, was underestimated. Moreover, Kahf also gave Muqbil Zuqair's estimates of *zakāt* (2.7 percent of the GDP) for Saudi Arabia and Faud al Omar's estimates (2.1 percent of GDP) for Kuwait. Their estimates were based on the traditional view of scholars - *ulamā*. However, they have all excluded oil extraction in their estimation of *zakāt*.

Kahf (1989) estimated *zakāt* potential for eight Muslim countries.<sup>9</sup> His estimates of potential *zakāt* were based on three definitions of *zakāt*able items. Those three definitions were named as *Z1*, *Z2* and *Z3*. *Z1* was estimated in accordance with the majority traditional view according to which *zakāt* was levied on agriculture, livestock, stock in trade, gold, silver and money. *Z2* was based in accordance with the views of contemporary Muslim scholars where *zakāt* can be deducted from net returns of manufacturing concerns and building rents and from net savings out of salaries. *Z3* was based on Malikite views, where the *zakāt* base includes buildings and other fixed assets except those assigned for personal and family use. According to these definitions, under *Z1*, *zakāt* can be collected in the range of 0.9 to 4.3 percent of GDP, under *Z2* from 1.7 to 6.3 percent and under *Z3* from 2.0 to 7.5 percent of the GDP for the eight Muslim countries (for details see Table 3).

TABLE 3  
Percentage of Estimated *Zakāt* Proceeds to GDP in Selected  
Muslim Countries

Countries	Z1	Z2	Z3
Egypt	2.0	3.9	4.9
Indonesia	1.0	1.7	2.0
Pakistan	1.6	3.5	4.4
Qatar	0.9	3.7	3.2
Saudi Arabia	1.2	3.7	3.4
Sudan	4.3	6.3	6.2
Syria	1.5	3.1	3.1
Turkey	1.9	4.9	7.5
Average	1.80	3.85	4.34

**Source:** Kahf (1989).

The different potential *zakāt* collection is due to different economic structure of the countries (e.g. see Kahf, 1989). His paper also provided the sectoral decomposition of the total *zakāt* collection under Z1, Z2 and Z3. Keeping in view his decomposition, one can draw some interesting implications for the total *zakāt* collection. For example, in Pakistan, the agriculture sector contributes 24 percent of the total *zakāt* collection while 76 percent of the contribution comes from other sectors. If we accept Chowdhry's (1991) estimates (1.65 percent of GDP) of *ushr* collection, then total potential *zakāt* collection under Z1 stands at about 6.4 percent of GDP. If we take Hussain and Shirazi's (1994) estimates (about 1.0 percent of GDP) of *ushr* collection, then total collection of *zakāt*, even under Z1, comes out to be 4.0 percent of the GDP of Pakistan. From these estimates, one can conclude that some element of arbitrariness is there and therefore, no one estimate is perfect. Therefore, there is a need for re-estimation of *zakāt* potential of each Muslim country and the Muslim-minority countries elsewhere. Since there is no agreement among the scholars on the new wealth that may be brought under the *zakāt* net, hence there is an urgent need for a general agreement on the definition of the items, which can be considered as *zakāt*able items. This requires *ijmāʿ* of the *ulamāʿ* and other contemporary scholars on the issue. However, this is beyond the scope of the current paper. Kahf's (1989) estimates covered eight Muslim countries having different economic structure, therefore, we have opted

for his definitions for potential *zakāt* estimation with some changes. Nevertheless, results based on these estimates will only be indicative of the actual values.

It may be noted that *zakāt* is collected from the rich Muslims only and non-Muslims<sup>10</sup> citizens are exempt from the payment of *zakāt*. Kahf's (1989) study for the above-mentioned eight countries, perhaps, did not take into account this factor while estimating *zakāt* potential under different definitions of *zakāt*able items. Consequently, we have adjusted GDP of each Muslim country by taking into account the proportion of Muslim population in each of the Muslim countries. We have used the per capita concept of GDP for the adjustment of GDP. For example, the GDP of Indonesia was USD152,226 million in 2002, and the Muslim population was 88.0 percent, therefore, adjusted GDP for the purpose of *zakāt* estimation will be  $(152226) \times (0.88) = \text{USD}133,958.9$  millions. Similarly, we have adjusted the GDP of all other countries with respect to their proportion of Muslim population. After adjusting GDP, we have used Kahf's definition of potential *zakāt* collection for Indonesia and Pakistan as reported in Table 3. On the other hand, for the rest of the Islamic countries, where such estimates are not available, we have taken the average of Zs of the above eight countries (see Table 3) and applied this average to estimate the potential *zakāt* collection.

The potential *zakāt* estimates are shown in Table 4. Column 4 of the table shows the Muslim population in the respective countries, which is used for the calculation of column 5 of Table 4. Potential *zakāt* collections in absolute terms are reported in columns 6 through 8, while columns 9 through 11 depict potential *zakāt* collection as a percentage of GDP for the respective countries. Although we have used 1.8 percent as *Z1* for all other countries except Indonesia and Pakistan (for which we have used 1.0 and 1.6 percent, respectively), we still get different potential *zakāt* collections as a share of GDP due to adjustment of GDP with the Muslim population share. On average, *Z1*<sup>11</sup> collection in the low-income Muslim countries varies from 0.88 to 1.80 percent of their GDP. Similarly, *Z2* varies from 1.50 to 3.85 percent, while *Z3* varies from 1.76 to 4.30 percent of the GDP. The potential *zakāt* collection from *Z1*, *Z2* and *Z3*, for all countries under study, comes out to be 1.23, 2.47 and 2.88 percent of their total GDP, respectively.

TABLE 4  
Potential Zak(f)t Estimates

1	2	3	4	5	6	7	8	9	10	11
Low-Income Muslim Countries	Survey Year	GDP (Million USD)	percentage of Muslim population	Adjusted GDP (million USD)	Z1 (million USD)	Z2 (million USD)	Z3 (million USD)	Z1 (% of GDP)	Z2 (% of GDP)	Z3 (% of GDP)
Azerbaijan	2001	5273	93.4	4924.98	88.65	189.61	211.77	1.68	3.60	4.02
Bangladesh	2000	47106	88	41453.28	746.16	1595.95	1782.49	1.58	3.39	3.78
Burkina Faso	1998	2522	50	1261	22.70	48.55	54.22	0.90	1.93	2.15
Cameroon	2001	8854	55	4869.7	87.65	187.48	209.40	0.99	2.12	2.37
Cote d'Ivoire	1998	12782	60	7669.2	138.05	295.26	329.78	1.08	2.31	2.58
Gambia	1998	417	90	375.3	6.76	14.45	16.14	1.62	3.47	3.87
Indonesia	2002	152226	88	133958.88	1339.59	2277.30	2679.18	0.88	1.50	1.76
Kyrgyzstan	2001	1370	76.1	1042.57	18.77	40.14	44.83	1.37	2.93	3.27
Mali	1994	1763	90	1586.7	28.56	61.09	68.23	1.62	3.47	3.87
Mauritania	2000	977	100	977	17.59	37.61	42.01	1.80	3.85	4.30
Niger	1995	1881	91	1711.71	30.81	65.90	73.60	1.64	3.50	3.91
Nigeria	1997	30219	75	22664.25	407.96	872.57	974.56	1.35	2.89	3.23
Pakistan	1998	62228	97	60361.16	965.78	2112.64	2655.89	1.55	3.66	4.27
Senegal	1995	4476	95	4252.2	76.54	163.71	182.84	1.71	3.66	4.09
Sierra Leone	1989	636	65	413.4	7.44	15.92	17.78	1.17	2.50	2.80
Tajikistan	1998	1320	85	1122	20.20	43.20	48.25	1.53	3.27	3.66
Turkmenistan	1998	2862	87	2489.94	44.82	95.86	107.07	1.57	3.35	3.74
Uzbekistan	2000	13760	88	12108.8	217.96	466.19	520.68	1.58	3.39	3.78
Yemen	1998	6319	99	6255.81	112.60	240.85	269.00	1.78	3.81	4.26
For all countries		356991			4378.57	8824.29	10291.97	1.23	2.47	2.88

Source: Columns 1 through 3 are based on World Bank (2004). Population is taken from Romania Fact book (2004), and the rest are based on our own calculations.

Kahf (1999) rightly pointed out that *zakat* collection in the officially *zakat* implementing countries was very low compared to its potential collection. For example, actual *zakat* collection in Saudi Arabia ranges between 0.4 and 0.6 percent of the GDP, in Sudan it is between 0.3 and 0.5 percent of GDP, while in Pakistan and Yemen it did not exceed 0.3 percent and 0.4 percent of the GDP respectively. The reasons for low collection of *zakat* are well known to the scholars. *Zakat* is not fully implemented in its spirit in any one of the officially *zakat* implementing Muslim countries. *Zakat* is not deducted from all *zakatable* items. For example, in Pakistan it is implemented half-heartedly. There are many loopholes in the system. Many exemptions have been granted to different sects. People have no confidence on the government machinery and therefore, payments to official agencies are very low. People pay on their own to the poor and to the religious schools and other philanthropic institutions. Shirazi (1996) estimated that 14.2 billion (about 1.4 percent of GDP) private *zakat* transferred to the poor individuals. This did not include transfers to the religious schools and other philanthropic institutions, which are mainly run on these transfers. A study conducted by the *Aga Khan Development Network*, as part of a report on the initiative of indigenous philanthropy, stated that an estimated 70.5 billion Rupees (which is 2.63 percent of the GDP in 1998) of private transfers were made to philanthropic institutions (see Iqbal, 2004). This shows that people are willing to pay but need confidence in the system. Moreover, governments are not following religious teachings in their affairs, and therefore, one cannot expect the enforcement of *zakat* law to its totality in the respective countries. Hence, low collections are understandable, but one may not lose hope. If it is enforced and implemented in its true spirit, a sufficient amount can be collected and may be sufficient for the elimination of poverty from some of the Muslim countries, if not all.

## 7. RESOURCE SHORTFALL AND POTENTIAL *ZAKAT* COLLECTION

We have put resource shortfall and potential *zakat* collection together in Table 5. Columns 3 and 4 show resource shortfall under USD1 and 2 respectively, while columns 5 through 7 show potential *zakat* collection under different definitions of *zakatable* items. Looking at column 3, some countries' resource shortfall, under USD1, for poverty elimination is so



high that it cannot be met under any definition of potential *zakāt* collection. For example, the resource shortfall of Burkina Faso (11.35 percent), Gambia (19.91 percent), Mali (61.35 percent), Niger (39.42 percent), Nigeria (33.75 percent) and Sierra Leone (61.61 percent) are very high, and corresponding maximum *zakāt* collection even under Z3 is 2.15, 3.87, 3.87, 3.91, 3.23 and 2.80 percent, respectively. However, Azerbaijan, Cameroon, Cote d'Ivoire, Indonesia, Kyrgyzstan, Pakistan, Senegal, Tajikistan, Turkmenistan and Uzbekistan's resource shortfall can be covered from Z1. If we take into account the administrative cost of *zakāt* collection<sup>12</sup> then Z2 or Z3 collection is enough for fulfilling both the amounts of resource shortfall and collection costs. However, in the case of Mauritania's resource shortfall (2.10 percent), while it cannot be covered from Z1 (1.80 percent), can be easily covered by Z2 (3.85 percent) or Z3 (4.30 percent). Similarly Bangladesh's resource shortfall (3.37 percent) cannot be covered by Z1 (1.58 percent), but it can with Z2 (3.39 percent) or Z3 (3.78 percent).

Resource shortfall, on average, for all the countries under study is 4.18 percent of their total GDP. This is due to the large resource shortfall of the poorest countries in the sample. The corresponding amount, which can be collected under Z1, Z2 and Z3, comes out to be 1.23, 2.47 and 2.88 percent of the total GDP, respectively. These are not sufficient to provide for the resource shortfall and eliminate absolute poverty for these countries. Although some countries can easily meet their own resource shortfall, overall potential *zakāt* collection from all low-income Muslim countries is low due to the low GDP. However, if we take into account the lower middle-income countries including Malaysia, for which data are available, then the resource shortfall for all such countries average out to be 1.55 percent of the total GDP (see Appendix). The corresponding amount, which can be collected under Z1, Z2 and Z3, are 1.50 percent, 3.09 percent and 4.18 percent of GDP respectively (see Shirazi, 2004). This can provide enough (rather surplus) resources for poverty elimination, provided the surplus from these countries can be pooled and transferred to resource-deficit countries.<sup>13</sup>

Resource shortfall under USD2 is very high. Countries, which could meet their resource shortfall under USD1 from *zakāt* proceeds are not able to meet their resource shortfall under USD2 by any definition of *zakāt* proceeds. The countries added to such list are Cameroon, Cote d'Ivoire, Indonesia, Kyrgyzstan, Mauritania, Pakistan, Senegal, Tajikistan,

TABLE 5  
Resource Shortfalls and Potential Zakf(t Collection

1	2	3	4	5	6	7
Low-Income Muslim Countries	Survey Year	Resource shortfall % of GDP (USD1)	Resource shortfall % of GDP (USD2)	Z1 (% of GDP)	Z2 (% of GDP)	Z3 (% of GDP)
Azerbaijan	2001	0.02	0.39	1.68	3.60	4.02
Bangladesh	2000	3.37	69.07	1.58	3.39	3.78
Burkina Faso	1998	11.35	114.95	0.90	1.93	2.15
Cameroon	2001	0.47	13.08	0.99	2.12	2.37
Cote d'Ivoire	1998	0.29	9.22	1.08	2.31	2.58
Gambia	1998	19.91	98.30	1.62	3.47	3.87
Indonesia	2002	0.04	9.40	0.88	1.50	1.76
Kyrgyzstan	2001	0.01	4.52	1.37	2.93	3.27
Mali	1994	61.35	245.86	1.62	3.47	3.87
Mauritania	2000	2.10	35.93	1.80	3.85	4.30
Niger	1995	39.42	176.22	1.64	3.50	3.91
Nigeria	1997	33.75	146.93	1.35	2.89	3.23
Pakistan	1998	0.28	24.72	1.55	3.66	4.27
Senegal	1995	1.35	27.95	1.71	3.66	4.09
Sierra Leone	1989	61.61	210.23	1.17	2.50	2.80
Tajikistan	1998	0.48	29.34	1.53	3.27	3.66
Turkmenistan	1998	0.19	8.33	1.57	3.35	3.74
Uzbekistan	2000	0.84	31.82	1.58	3.39	3.78
Yemen	1998	0.74	14.19	1.78	3.81	4.26
All countries		4.18	36.09	1.23	2.47	2.88

Source: Based on Tables 2 and 4.

Turkmenistan and Uzbekistan (see Table 5). The resource shortfall under USD2 for all the countries on average is 36.09 percent of their total GDP, which is very high and cannot be covered by *zakāt* potential. Nevertheless, this resource shortfall reflects relative poverty, which will always be there.

The general picture that emerges from the above analysis is as follows. Most of the African Muslim countries are very poor and they need large funds for meeting their resource shortfall. *Zakāt* proceeds from these countries, even collected to its potential, are not sufficient. Therefore, other sources of transfers are needed. These countries need the help from other rich countries. Some countries are able to overcome shortfall of their core poor from the potential *zakāt* collection. Therefore, a system of *zakāt* should be introduced in its true spirit in all Muslim countries, where resource surplus countries could help resource-deficit countries.

Resource shortfall under USD2 poverty line is very high. Under this poverty line, meeting the resource shortfall is out of the question. Since poverty is a global phenomenon, it demands help from the rich countries of the world.

## 8. CONCLUSION

Poverty is a multi-dimensional phenomenon that cannot be defined conclusively. It goes beyond the notion of income, and encompasses social, economic, and political deprivations. Scholars from various disciplines have expressed concern for poverty over the centuries. Its causes have been identified in a variety of sources ranging from deficiencies in the administration of income support, to injustice of the social and economic systems. The abolition of poverty has been sought in the reform of social security systems, to changes in the form of socioeconomic systems. Since poverty is a multidimensional problem, solutions to poverty require a comprehensive set of well-coordinated measures. Elimination of poverty, in addition to domestic efforts, demands assistance of the rich countries.

Developing countries have no comprehensive social security system and therefore, have many poor people. In the early Islamic period, the institutions of *zakāt* and *sadaqāt* were as strong and the poor and the needy were helped through this institution. This important institution has been neglected by Muslim countries today. Presently, few Muslim countries have introduced the system of *zakāt* officially (and even here,

is not implemented in its true spirit), while in majority of the cases this institution does not exist. In this paper, we have attempted to see the possibility of providing for the resource shortfall for poverty elimination through the potential proceeds of the system of *zakāt* from richer countries to the low-income countries.

For precise estimates, national poverty lines and micro-data are required, which are not available to us. Therefore, we have used international poverty lines (under USD1 and USD2) and poverty indices reported in the *World Development Indicators* (World Bank, 2004). Using these indices, we have estimated the total resource shortfall for poverty elimination. Additionally, we have also calculated potential *zakāt* collection by utilizing Kahf's (1989) definitions of *zakāt* items with some adjustments.

Our results show that the resource shortfalls in some of the poorest countries like Burkina Faso, Gambia, Mali, Niger, Nigeria and Sierra Leone are very high, and cannot be covered by even Z3 estimates. However, in Azerbaijan, Cameroon, Cote d'Ivoire, Indonesia, Kyrgyzstan, Pakistan, Senegal, Tajikistan, Turkmenistan and Uzbekistan, the resource shortfall can be covered from Z1. If we take into account the administrative cost of *zakāt* collection, then Z2 or Z3 collections are adequate for fulfilling these amounts. In the case of Mauritania and Bangladesh, their resource shortfall cannot be covered from Z1 but can be covered by Z2 or Z3.

Resource shortfall under the USD2 to reduce poverty is very high. Most countries would be able to cover the amounts required for this. This paper shows that while some of the countries are capable to overcome their core poverty problem from their own potential *zakāt* collection, there is a need for the introduction of a genuine system of *zakāt* globally by all Muslim countries to help each other.

Most of the African Muslim countries are very poor and they need large funds for bridging the resource shortfall for poverty elimination. *Zakāt* proceeds alone, even collected to its potential, are not sufficient. Therefore, other sources of transfers are needed. In addition to their own domestic efforts, these countries need the help of other rich Muslim countries and therefore, we call for global distribution of *zakāt*. Nevertheless this is a *fiqh* issue and needs to be taken up in the future.

People who fall under the USD2 poverty line are considered relatively poor and the resource requirement is very high. Under this category,

providing the resource shortfall is out of question and would require a global solution, going beyond the abilities of the Muslim countries in this study.

Our results are indicative and should be taken with caution. As mentioned, precise estimates are not possible without the nation specific poverty line and micro data. Hence, we suggest that this task may be taken up by the OIC. There are also a host of other conceptual and fiqh issue like the definition and scope of *zakāf* items, that calls for *ijtihād* among the contemporary *‘ulamā* and scholars.

### END NOTES

1. Poverty typically used to refer to a situation where individuals do not have sufficient resources to cover their needs. These “needs” may be of a variety of types, not only economic but also social and psychological – even spiritual. Thus, aspects such as social isolation, deprivation and inability to cope are all involved (Wolfson, Evan and Brian, 1990).
2. People are deprived if they lack the material facilities, work opportunities, environmental and location conditions and facilities which are ordinarily available in their society and do not participate in, or have access to the forms of employment , occupation, education, recreation and family and social activities and relationships which are commonly experienced or accepted (Townsend,1987).
3. *Zakāf* was implemented in the second century of *ī jrah* and continued during the period of the four Caliphs, and even after that period.
4. *Sadaqah* is a more general term. It includes both obligatory *sadaqah* (*zakāf*) and voluntary *zakāf*, charity and other transfers.
5. The coverage of *zakāf* is limited and there are leakages in the distribution channels. So, there is a need to widen the coverage of *zakāf* (bringing all *zakāf* items under the *zakāf* net) together with a foolproof distribution system.
6. World Bank classification of countries.
7. These countries are Bangladesh, Egypt, Indonesia, Malaysia, Morocco and Pakistan.

8. This paragraph is based on Kahf's study, as we could not get articles referred to in the paragraph at the time of writing this paper.

9. These countries are Egypt, Indonesia, Pakistan, Qatar, Saudi Arabia, Sudan, Syria and Turkey.

10. Although non-Muslims are exempted from the payment of *zakāt*, controversy still exists regarding the payment of *zakāt* to the poor non-Muslims. Maududi (1988, 63-64), wrote that non-Muslims should be helped from other social welfare funds as they are not eligible for taking *zakāt*. His views were based on the *ūadʿth* "...To be taken from your rich people (Muslims) and to be disbursed to your poor people". Shaikh (1980) was of the view that *zakāt* money may be paid to non-Muslims after meeting the need of Muslims. He said that there is no pertinent indication in the *Qurʿān* or *ūadʿth* that *zakāt* is to be used for Muslims only. Abu Saud (1988) expressed the same view. He further reported that *zakāt* could be paid to non-Muslims as long as they do not fight against Islam and Muslims. In this study, non-Muslims are not excluded from the poor people of the countries.

11.  $Z1 = [(0.018) (\text{Adjusted GDP/ GDP}) * 100]$ . Similarly  $Z2$  and  $Z3$  are calculated by using the average of eight Muslim countries'  $Z2$  (3.85 percent) and  $Z3$  (4.34 percent) of their respective GDP. For Indonesia and Pakistan  $Z2$  are 1.7 and 3.5 percent, and  $Z3$  are 2.0 and 4.4 percent, respectively.

12. The exact cost of *zakāt* collection in the different *zakāt* implementing countries is not known to us. However, if we assume 15 to 20 percent *zakāt* revenue as administrative cost, then  $Z2$  or  $Z3$  is enough for both the resource shortfall and collection cost.

13. Opinions differ regarding the distribution of *zakāt* globally. *Zakāt* revenue should be distributed in the locality in which it is collected as long as there are those who are in need of it (Shehatah 1989, 61). In Abu Yusuf's view, *zakāt* should be disbursed in the locality, not to the inhabitants of any other town (Shehatah 1989, 62). Al-Qardawi justifies this by saying that the territoriality of *zakāt* has been devised to combat and defeat poverty, to train each province to become self-sufficient and to enable it to solve its domestic problems. The Imam (political authority) may decide otherwise when the locality does not need *zakāt* money. Abu Saud holds a different view. According to him, "it is not a mandatory rule prescribed by the *Qurʿān* and *Sunnah*" to distribute *zakāt* in the locality it is collected from (Abu Saud 1988, 179). The concept of location has lost its past importance,

since the kinfolks of a single family may be spread over several continents. Abu Saud leaves it to *zakāt* payers or the collecting institutions to decide the location of *zakāt* allocation (This paragraph is heavily based on Sadeq, 1994).

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APPENDIX  
Resource Shortfalls and Potential Zakat Collection

1	2	3	4	5	6	7
OIC Countries	Survey Year	Resource shortfall % of GDP (USD1)	Resource shortfall % of GDP (USD2)	Z1 (% of GDP)	Z2 (% of GDP)	Z3 (% of GDP)
Albania	2002	0.00	0.12	1.26	2.70	3.01
Algeria	1995	0.00	0.30	1.78	3.81	4.26
Azerbaijan	2001	0.02	0.39	1.68	3.60	4.02
Bangladesh	2000	3.37	69.07	1.58	3.39	3.78
Burkina Faso	1998	11.35	114.95	0.90	1.93	2.15
Cameroon	2001	0.47	13.08	0.99	2.12	2.37
Cote d'Ivoire	1998	0.29	9.22	1.08	2.31	2.58
Egypt	2000	0.00	2.79	1.88	3.67	4.61
Gambia	1998	19.91	98.30	1.62	3.47	3.87
Guyana	1998	0.00	0.09	0.27	0.58	0.65
Indonesia	2002	0.04	9.40	0.88	1.50	1.76
Iran	1998	0.00	0.05	1.78	3.81	4.26
Jordan	2001	0.00	0.05	1.71	3.66	4.09
Kazakhstan	2001	0.00	0.08	0.92	1.97	2.20
Kyrgyzstan	2001	0.01	4.52	1.37	2.93	3.27
Malaysia	1997	0.00	0.03	0.94	2.00	2.24
Mali	1994	61.35	245.86	1.62	3.47	3.87

## APPENDIX (continued)

1	2	3	4	5	6	7
OIC Countries	Survey Year	Resource shortfall % of GDP (USD1)	Resource shortfall % of GDP (USD2)	Z1 (% of GDP)	Z2 (% of GDP)	Z3 (% of GDP)
Mauritania	2000	2.10	35.93	1.80	3.85	4.30
Morocco	1999	0.00	0.28	1.78	3.80	4.24
Mozambique	1996	10.35	130.73	0.52	1.12	1.25
Niger	1995	39.42	176.22	1.64	3.50	3.91
Nigeria	1997	33.75	146.93	1.35	2.89	3.23
Pakistan	1998	0.28	24.72	1.55	3.66	4.27
Senegal	1995	1.35	27.95	1.71	3.66	4.09
Sierra Leone	1989	61.61	210.23	1.17	2.50	2.80
Tajikistan	1998	0.48	29.34	1.53	3.27	3.66
Tunisia	2000	0.01	2.18	1.76	3.77	4.21
Turkey	2000	0.00	0.02	1.89	3.88	7.47
Turkmenistan	1998	0.19	8.33	1.57	3.35	3.74
Uzbekistan	2000	0.84	31.82	1.58	3.39	3.78
Yemen	1998	0.74	14.19	1.78	3.81	4.26
All countries		1.55	13.81	1.50	3.09	4.18

Source: Shirazi (2004).