

Poverty Alleviation Through Potential Zakat Collection: Case of Morocco

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Abstract

Morocco, is one of the many countries that still suffer from inequality and a high poverty index despite the economic growth over the last few years. This paper supports the argument that zakat is an effective institution to tackle poverty and concludes that the institutionalization of zakat as an alternative strategy would provide the foundations for sustainable development and good life. Indeed, this paper aims to demonstrate the effect of Zakat on poverty alleviation and redistribution of wealth by estimating potential Zakat collection in Morocco. The results of this study indicate that potential zakat collection can fill the resources shortfall for the poverty alleviation under 1.9\$ and 3.2\$ a day. The total of all zakat potential in Morocco are not only sufficient to provide for the shortfall and eliminate the extreme poverty but also can generate surplus.

Keywords: *Islamic Economics, Zakat, Poverty Alleviation, Wealth Redistribution*

A. Introduction

More than a billion people live in poverty in the twenty first century, according to Oxfam (2017), the 62 richest billionaires own as much wealth as the poorest half of the world's population. Indeed, the concept of wealth redistribution and poverty alleviation has been a controversial subject for many centuries as economists, sociologists, philosophers and many others continued to argue until today. This research attempts to bring and study a new concept that is different from what we encounter in conventional economics. This economic principle, Zakat, has long been practiced in Muslim communities and proved to be healthy to the economy. Yet the effectiveness of this instrument remains limited because of lack of governance, centralization of funds and commitment of public authorities in Muslim countries.

An in depth analysis on the different aspects of Zakat by raising important questions especially: What are the foundations of Zakat and what contributions does it bring to reducing poverty in a society? Thus, the main objective of this research is to estimate the resource gap and the potential of zakat collection, by comparing the available resources with the required resources for poverty alleviation in order to demonstrate whether zakat can eradicate poverty in Morocco. In order to achieve this objective, the paper is divided in two parts. The first part presents the recent context of Moroccan inequalities and the last part demonstrate the role of Zakat in funding poverty.

B. Literature Review

The definition of poverty is at the same time rich and varied. Watt (1968) considers poverty as an individual situation, not individual characteristics or behavioural patterns. This point of view leads to describe poverty as a situation where individuals are not having sufficient resources to meet what they need and lives below the minimum welfare level (Drewnosky, 1997).

Zakat, in Islamic economics is considered as an instrument that provides fair income redistribution and contribute on poverty alleviation (Hasan, 2015). Olanipekun et al. (2015) explore through guidance from relevant verses of Quran and Hadith of the Holy Prophet the role of zakat as an institution in tackling poverty and concludes that the institutionalization of zakat as an alternative strategy would provide the foundations for sustainable development and good life.

Recent study about poverty alleviation in Malaysia (Zulkifil et al, 2021), show the importance of zakat in the effort to eradicate poverty and further able to improve the life quality of the poor. There are several research conducted related to the demonstration of the impact of Zakat in poverty alleviation by the estimation of potential Zakat collection. Kahf (1989) compares the percentages of GDP required for poverty alleviation under \$1.00 and \$2.0 with potential Zakat collection based on the different opinions for zakatable items.

An extensive review of literature has been covered by Shirazi et al (2004, 2009 and 2014), focused on an empirical study about OIC countries. Shirazi (2006), estimate the resources required for poverty elimination under \$1.25 a day and \$2.0 a day. Based on the evidence from sampled countries, it appears that the potential resources from zakat collection alone can meet the shortfall in resources required for poverty alleviation in most OIC countries.

In a recent study, Eman et al (2015), comes with estimation of the potential Zakat collection in Egypt by considering as zakat payers, people receiving highest 20% of total income. The results found that potential Zakat collection can fill the resources gap for poverty alleviation under \$2.0 a day.

C. Research Methodology

This paper is the extended version of our study Hamida et al. (2016) 'Zakat and distribution of wealth in Islamic Economy: Case of Morocco', as an empirical study that support the argument of the earlier paper, which has demonstrated the role of Zakat in equitable distribution of wealth in Morocco before the precolonial period. In this paper it will compare the resource gap for poverty reduction (under 1.9 \$ a day and 3.2 \$ a day) and the potential zakat collection in Morocco to determine whether zakat can eradicate poverty or not. Thus, this study employed poverty gap to estimate resource shortfall to poverty reduction.

For the measure of poverty, we will use the following variables:

- Poverty gap index at 1.9 \$ a day (PPP)
- Poverty gap index at 3.20 \$ a day (PPP)
- Resource shortfall under 1.9 \$ a day Millions
- Resource shortfall under 3.2 \$ a day Millions

- Resource shortfall under 1.9\$ a day as % of GDP
- Resource shortfall under 3.20 \$ a day as % of GDP

For estimation of Potential zakat collection we will use two basis of estimation:

- Estimation of Zakat Z1, Z2 and Z3, based on three assumptions following the study of Kahf (1989): Z1 was based on the majority traditional view according to which Zakat is levied on agriculture, livestock, stock in trade, gold, silver and money. Z2 is based on the views of some contemporary Muslim scholars where Zakat can be imposed on net returns of industrial firms and building rents and on net savings out of salaries. Z3 was based on Malikite views, where Zakat base includes buildings and other fixed assets (for detail see Annex 1).
- Estimation of eligible Zakat payers: it's considered as Zakat payer, people who are receiving highest 20% (Q5) and the fourth 20% (Q4) of total income.

In this estimation exercise the study will use selected aggregate:

- GDP (PPP) at current US \$.
- Potential Z1 Millions current US \$.
- Potential Z2 Millions current US \$.
- Potential Z3 Millions current US \$.
- Resource shortfall under 1.9\$/day as % of Z1
- Resource shortfall under 3.2\$/day as % of Z1
- Resource shortfall under 1.9\$/day as % of Z2
- Resource shortfall under 3.2\$/day as % of Z2
- Resource shortfall under 1.9\$/day as % of Z3
- Resource shortfall under 3.2\$/day as % of Z3
- Income share held by highest 20% (Q5).
- Income share held by the fourth 20% (Q4).
- Potential Zakat collection Millions current US \$ based on Q5.
- Potential Zakat collection Millions current US \$ based on Q5 and Q4.
- Potential Zakat collection as percent of GDP.
- Resource shortfall 1.9 \$ a day as percent of GDP.
- Resource shortfall 3.2 \$ a day as percent of GDP.

The potential Zakat collectible will be estimated for the period 1998-2013, because of availability of complete data on this period. The data is taken from World Bank's World Development Indicators.

D. Result And Discussion

1 Morocco Between Growth And Inequality

Many countries, in XXI century, still didn't come back into the same level where economic growth and reduction of inequality go hand in hand. Morocco is among the countries which endure from inequitable sharing out of treasures in spite of the growth

accomplished during these last years. Worth noting that Morocco is one of the rare Islamic countries who doesn't have a national institution responsible of collecting and distributing Zakat. The Moroccan government is moving closer towards the creation of a public Zakat fund. This initiative comes as part of efforts to improve solidarity between citizens and for poverty alleviation. Ahmed Taoufik the Minister of Islamic Affairs, recently said that the preparations for such a fund are being made by the ministry, which is working on the management model and the implementation mechanisms. This institution will be based on voluntary collection of Zakat and its distribution.

During last decades, Morocco improved the majority of his socio economic indicators except that this development was not of same benefit to all the population. Therefore, wealth is distributed in an inequitable way and inequality persists on a multidimensional ladder between men and women, urban and rural, developed regions and less developed regions, and of course between rich and the poor. The rise of inequality represents a real challenge for the objectives fixed of social cohesion.

In real term, from 2001 to 2011, the standard of living witnessed a significant increase at an average annual rate of 3.5%. This increase constitutes, next to the fall of multidimensional poverty, a principal factor of the reduction of monetary poverty. Conversely, the social inequality measured by the Gini coefficients showed, throughout this period, some rigidity that worked against the fall of poverty. The poverty indicator did not show much improvement as it reached only 0,395 in 2014, slightly below the 0,406 in 2001 and 0,407 in 2007, as when an economy moves away from zero indicates increasing inequality and vice versa (HCP: National Survey on Consumption and Household Expenditure 2013/2014).

According to the Hight Commission for Planning (HCP) experts, two growth rate points are needed to reduce one point of inequality. The national report relating to millenniums objectives for development (2014), a 1 % economic growth gives rise to a reduction of the rate of 2.7 % poverty in 2001, 2.9 % in 2007 and of 3.6 % in 2014. In fact, the richest 10 % Moroccans used up more than 30% of total consumption during period 1990-2011 while the poorest 10% were given only 2.6%. Furthermore, the richest 20% households received 55.4% of national income while the poorest 20% got only 4.1%. The reduction, in the long term, of this level of inequality reverberates on several domains such as health, education and standard of living.

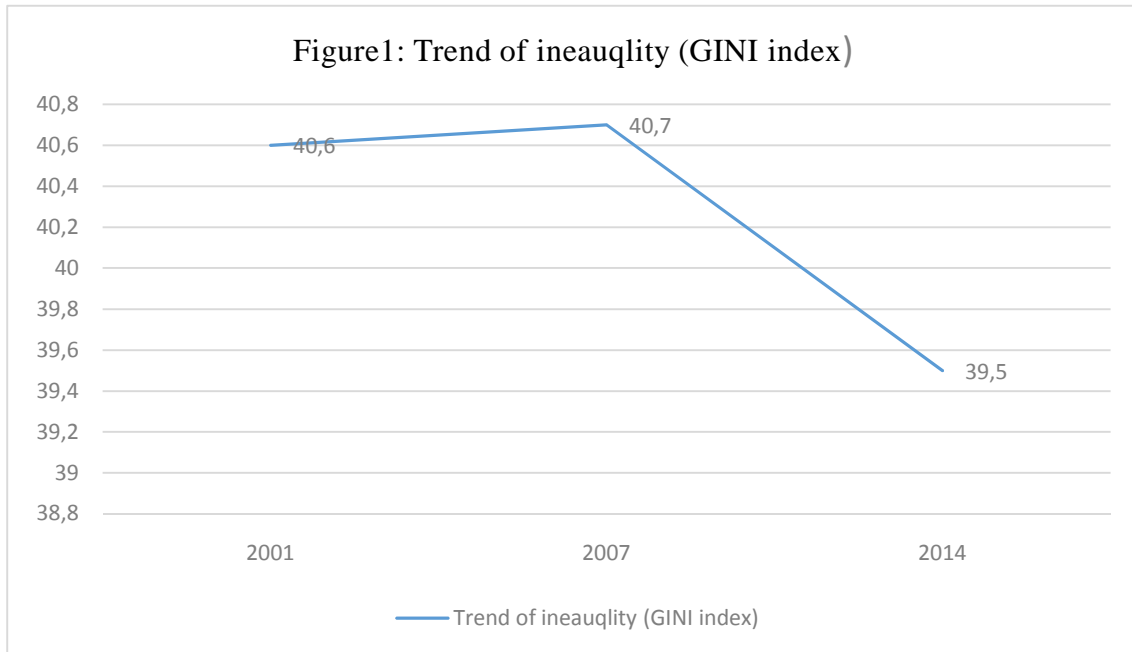
The inequality exists as demonstrate it the urban/rural ratio and rich/ratio, in the table below:

Table 1 Trend Of Consumption Inequality In Morocco

	1991	1999	2007	2012
Expenses on consumption of the poorest 10%	2.8	2.6	2.6	2.1
Expenses on consumption of the richest 10%	30.8	31.0	33.1	36.8
Rural/Urban report	1.68	1.75	1.79	2.13
Report richest 10% / poorest 10%	11.0	11.9	12.7	17.5
Gini co-efficient	0.393	0.395	0.407	0.398

Sources: HCP 2012, ONDH 2012

Therefore, the index of socio-economic inequality still persists. The graph below shows the change of inequality in morocco measured by Gini coefficient during the period 2001-2014.



Sources: ENCDM 2001 and 2014, ENVM 2007, HCP

The social inequality measured by coefficient of GINI, demonstrates a reduction of inequality during this period, from 40.6% in 2001 to 40.7% in 2007 and to 39.5% in 2014. Despite of this reduction of inequality, there is still high incomes inequality. The table 2 shows the income share quintile in Morocco for three years 1998, 2000, 2006 and 2013.

Table 2 Income Share Across Quintiles (%)

	1998	2000	2006	2013
Income share held by lowest 20% (Q1)	6.53	6.46	6.54	6.7
Income share held by second 20% (Q2)	10.56	10.27	10.5	10.7
Income share held by third 20% (Q3)	14.97	14.45	14.45	14.7
Income share held by fourth 20% (Q4)	21.46	21.02	20.47	20.9
Income share held by highest 20% (Q5)	46.52	47.79	48.04	47.00

Source: Data World Bank: <http://data.worldbank.org/indicator/SI.DST.05TH.20?locations=MA-XD>

In fact, the richest 20% totaled, during period 1998-2013, more than 47 % of global income share of Moroccan households, against less than 6.5 % for the poorest 20%.

2 Estimation of potential Zakat proceeds in Morocco:

The demonstration of Zakat effects in reduction of poverty need a comparison between the resource shortfall for poverty elimination and the potential Zakat proceeds. \

a. Resource shortfall for poverty elimination in Morocco

The table below present the poverty gap index under 1.9 \$ a day and 3.2 \$ a day in Morocco for years 1998, 2000, 2006, 2013 and 2018. The aim of this table is to estimate the resource shortfall for poverty that Morocco need to eliminate. The data sets of poverty gap index under 1.9 \$ a day and 3.2 \$ a day as reported in World Bank (2013). The total number of population is taken from HCP report (2014).

Table 3 Resource Shortfall For Poverty Elimination Under 1.9 \$ And 3.2 \$ (1998-2018)

		1998	2000	2006	2013	2018
1	Nbr of population (Million)	28.10	28.71	30.40	33.82	36.03
2	GDP (PPP) Billion US\$	97.396	104.056	163.909	249.07	314.241
3	Poverty gap index 1.9 \$/ day%	1.32	1.30	0.6	0.2	0.2
4	Nbr of poor under 1.9 \$/ day	370,920	373,230	182,400	67,640	72,060
5	Poverty gap index at 3.20 \$/ day %	7.8	7.4	4.1	1.6	1.6
6	Nbr of poor under 3.20 \$/ day	2,191,800	2,124,540	1,246,400	541,120	576,480
7	Resource shortfall under 1.9\$/day (Million)	257.23	258.8	126.5	46.91	49.97
8	Resource shortfall under 3.20 \$/day (Million)	2560.02	2481.46	1455.79	632.02	673.32
9	Resource shortfall under 1.9 \$/day as % of GDP	0.26	0.25	0.077	0.018	0.015
10	Resource shortfall under 3.20 \$/day as % of GDP	2.62	2.38	0.88	0.25	0.21

Source :Data World Bank

The rows 7 and 8 of the Table depicts, respectively, the resource required for poverty elimination under US \$1.9 a day and US \$ 3.2 a day. The resource shortfall for poverty reduction under 3.2 \$ is estimated to be 2560.02 million \$ in 1998, 2481.46 million \$ in 2000, 1455.79 million \$ in 2006 and 632.02 million \$ in 2013.

The rows 9 and 10 of the table presents the resource shortfall under 1.9\$ and 3.2 \$ per day as % of GDP and is respectively estimated to be 0.26% in 1998, 0.25% in 2000, 0.077% in 2006 and 0.018% in 2013 for RSUP 1.9 \$, and 2.62% in 1998, 2.38% in 2000, 0.88% in 2006 and 0.25% in 2013 for RSUP 3.2\$.

However, during the last Twenty years, the resource shortfall for poverty reduction in Morocco was decreased consistently and requiresan amount that is less than one percent of GDP in 2016, 2013 and 2018. These estimates suggest that in 2018, Morocco needs 0.015 percent of gross domestic product (GDP) for elimination of poverty defined by earnings less than under \$1.9 a day and 0.21 percent of GDP for elimination of poverty defined by earnings under \$3.2 a day.

b. Potential Zakat collection in Morocco

To estimate potential Zakat collection we use two bases of estimation:

- First: estimate potential Zakat that can be collected under three different opinions of scholars Z1, Z2 and Z3(Kahf, 1989).

- Second: estimate potential Zakat collection by the eligible potential payers.

1) Resource shortfall for poverty and potential Zakat collection

The table No.4 presents a comparison between potential Zakat collection and the resource shortfall of poverty under 1.9\$/day and 3.2\$/day based on the estimation of Z1, Z2 and Z3, where:

$$Z1 = [(0.018)(GDP (PPP))] * 100$$

$$Z2 = [(0.0385)(GDP (PPP))] * 100$$

$$Z3 = [(0.0434)(GDP (PPP))] * 100$$

Table 4 Resource Shortfall And Potential Zakat Collection Z1, Z2 And Z3

		1998	2000	2006	2013	2018
1	GDP (PPP) Billion US\$	97.396	104.056	163.909	249.07	314.241
2	Resource shortfall under 1.9\$/day (Million)	257.23	258.8	126.5	46.91	49.97
3	Resource shortfall under 3.2\$/day (Millions)	2560.02	2481.46	1455.79	632.02	673.32
4	Zakat potential based on Z1 (Billion \$)	1.75	1.87	2.95	4.483	5.65
5	Zakat potential based on Z2 (Billion \$)	3.75	4.00	6.31	9.59	12.09
6	Zakat potential based on Z3 (Billion \$)	4.22	4.51	7.11	10.81	13.63
7	Resource shortfall under 1.9\$/day as % of Z3	6.09%	5.74%	1.78%	0.43%	0.36%
8	Resource shortfall under 3.2\$/day as % of Z3	61.24%	55.02%	20.47%	5.84%	4.93%

Source: Based on table 3 and annex 1

The Potential zakat collection in absolute terms is reported in rows 4, 5 and 6 for the three definitions of Zakat items Z1, Z2 and Z3. Therefore, in this three years the potential Zakat is growing up. However, the potential Zakat collection exceed the resource shortfall of poverty under 1.9\$/day and 3.2\$/day, and can be covered from collection of Z1, Z2 or Z3. Based on Z3 estimate (relative to Malikite views) the distribution of Z3 on 2018 will help move the poor from Q1 income to Q4 income during this year. The demonstration of this distribution is presented in the table 5.

Table 5 Effects OfZakat (Z3) Distribution To The Poor (2013 And 2018)

Year	Z3 (Billion US \$)	Total poor population (Million)	Average monthly income before Zakat (low income Q1) (US \$)	Amount of Zakat affected by poor (US \$)	Average monthly income after Zakat distribution (US \$) (Q4)
2013	10.81	1.64	200.00	6591.46	749.28
2018	13.63	1.72	200.00	7929,10	860.75

Source: Based on table 4 and HCP report

2) Estimation Of Eligible Zakat Payers

For estimation of the eligible Zakat payers, we define two different scenarios:

- Potential Zakat collection of people belonging to the top income quintile (Q5). If an individual 'x' belongs to the top income quintile, he is assumed to have wealth exceeding Nissab and should pay Zakat.
- Potential Zakat collection of people belonging to the fourth 20% (Q4).

Indeed, the table 6 presents the potential Zakat collection of this two scenarios and compare them with resource shortfall poverty under 1.9\$ and 3.2\$a day.

Table 6. Potential Zakat Collection From Eligible Payers

		1998	2000	2006	2013	2018
1	Income share held by highest 20% (%) (Q5)	46.52	47.79	48.04	47.00	47.00
2	Income share held by the fourth 20% (Q4)	21.50	21.00	20.50	20.90	20.90
3	GDP (PPP) Billion US \$	97.39	104.05	163.90	249.07	314.241
4	Potential Zakat collection Billions \$ (based on Q5)	1.13	1.24	1.97	2.926	3.69
5	Potential Zakat collection Millions \$ (based on Q4)	523.50	546.29	839.98	1301.39	1641.90
6	Potential Zakat collection (based on Q5) as % of GDP	1.16	1.19	1.20	1.17	1.17
7	Potential Zakat collection (based on Q4) as % of GDP	0.53	0.52	0.51	0.522	0.522
8	Resource shortfall 1.9 \$/day as % of GDP	0.18	0.20	0.06	0.018	0.015
9	Resource shortfall 3.2 \$/day as % of GDP	1.8	1.94	0.68	0.25	0.25

Sources : Based on table 2, table 3 and Data world bank

According to these estimates we can see that potential Zakat collection based on people belonging to Q5 and Q4 exceed poverty gap index, and consequently, potential zakat collection can fill the resources shortfall for the poverty alleviation under 1.9\$ and 3.2\$ a day.

The table 7, shows that the distribution of potential Zakat collection based on the Zakat payed by people belonging to the top income quintile (Q5), in 2013, demonstrate that the Zakat can help move the poor from Q1 income to Q3 income and transfer the poor to non-poor during this year.

Table 7 Effects Of Potential Zakat Collection (Based On Q5)
Distribution To The Poor (2013 And 2018)

Year	Potential Zakat collection (Billion \$)	Total poor population (Million)	Average monthly income before Zakat (low income Q1) (US \$)	Amount of Zakat affected to poor (US \$)	Average monthly income after Zakat distribution (US \$)
2013	2.29	1.64	200.00	1396.34	316.36
2018	3.69	1.64	200.00	2250.00	387.50

Sources: Based on table 6 and HCP report

Table 8 Effects of Potential Zakat Collection (Based On Q5 and Q4)
 Distribution to The Poor (2013 And 2018)

Year	Potential Zakat collection based on Q5+Q4 (Billion \$)	Total poor population (Million)	Average monthly income before Zakat (low income Q1) (US \$)	Amount of Zakat affected to poor (US \$)	Average monthly income after Zakat distribution (US \$)
2013	4.22	1.64	200.00	2573.17	414.43
2018	5.33	1.64	200.00	3250.00	470.83

Sources: Based on table 6 and HCP report

The distribution of potential Zakat collection based on the Zakat paid by people belonging to highest 20% and the fourth 20% income quintile (Q5 and Q4) in 2018 demonstrate that, during this year, the Zakat can help move the poor from Q1 income to Q4 income.

E. Conclusion

This paper has estimated the resource required by Morocco for poverty elimination by estimate potential zakat collection. This study employed the poverty gap index based on US \$ 1.9 and US \$ 3.2 as reported in World Bank Indicators for measuring resource shortfall. The results show that the resource shortfall for poverty reduction under 1.9\$ and 3.2\$ is estimated to be respectively 46.91\$ Million \$ and 632.02 Million \$ in year 2013.

On the other hand, the different scenarios of potential zakat collection estimated from 20% highest income and Z1,Z2,Z3 are respectively 2.92 Billion\$, 4.48 Billion\$, 9.59 Billion\$ and 10.81 Billion\$ in 2013. However, the potential zakat collection can fill the resource gap for the poverty alleviation and play an essential role in financial inclusion in Morocco. But this one, need to establish an organization or institution to reach equitable distribution of income and wealth.

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ANNEXES

Annex1 Percentage of estimated Zakat 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).