

The Impact of Zakat on Poverty and Income Inequality in Bahrain

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ABSTRACT

The main objective of this paper is to assess the impact of Zakat on poverty and income inequality in Bahrain. To achieve this, the author analyzes the failure of conventional economy tools in the treatment of problems of poverty and inequitable distribution of income, then presents the ability of Zakat to eliminate poverty in the Muslim community and eliminate the income gap, finally, the author estimates Zakat due in Bahrain and then states its role in eliminating poverty and income inequality. The most important results of the research are that Zakat can eliminate poverty in Muslim countries and achieve the desired justice in the distribution of income. The most important recommendations of the paper are the need to pass legislations for the collection of Zakat from different sectors, organizations, institutions as well as individuals in Bahrain. Also, the custodians of the Zakat and charity Fund in Bahrain must completely split between the Zakat funds and charity funds, so they can distribute the Zakat funds among the eight legitimate recipients.

Key words: Zakat, poverty, income inequality, Bahrain

1. INTRODUCTION

Statistics indicate that only 20% of the world's population live at a high level of comfort and luxury, while the vast majority of the population are experiencing poverty, ignorance, hunger, and some of them live on less than a dollar a day, and the gap between the two lives is increasing day after day (Todaro, 1981). The widening of that gap is aided by some policies which affect the income and wealth of both parties. The odd thing that such conditions are found in the same country, where there are regions / sectors / categories sharply experiencing the manifestations of the low living standards, while others live in the same country in a completely different life of luxury and wealth. All of this is due either to the policies leading to poor distribution of income and wealth, or policies that would widen the income gap or both.

Poverty and income inequality are associated with strong interactive relationship, Poor income distribution leads to the existence of the poor, and the existence of the poor

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leads to lack of life and hence, lack of reasons to earn adequate income to meet living expenses, thereby increasing poverty and widening the income gap between sectors, thereby talking about the distribution of income may not be complete without first talking about poverty. With varying levels of income among households in the same society varies the demand for health, education and training, therefore members of the same society will vary in their capacity and skills gained, then chances for employment and obtaining appropriate wages will also vary and members of poor households would have access to jobs of lower wages, while members of rich families to find higher wage jobs, and thus the poor remains poor and the rich remains rich¹. Table (1) reflects that poverty and income distribution are related. In developed country like Norway, the spending on health, education and the military sector stands at 8.6% , 7.7%, and 2.05 of the total GDP, respectively, and the GINI coefficient records 25.8, while these percentages represents 2.1% , 4.0% and 1.4% respectively in the State of Senegal where the GINI coefficient reaches 41.3.

Table (1) correlation of poverty and income inequality in some countries

Country	Health expenditure (% GDP) 2003	No. of doctors per 100,000 persons 1990 - 2004	% 10the richest to % 10the poorest	the 20% richest to 20% the poorest	GINI Coefficient	Public expenditure on education (% GDP)	Military sector (%GDP (2004
High Human Development							
Norway	8.6	313	6.1	3.9	25.8	7.7	2
USA	6.8	256	15.9	8.4	40.8	5.9	4
France	7.7	337	9.1	5.6	32.7	6	2.6
UK	6.9	230	13.8	7.2	36	5.5	2.8
Kuwait	2.7	153	--	--	--	8.2	7.9
Bahrain	2.8	109	--	--	--	--	4.4
Qatar	2	222	--	--	--	--	--
AUE	2.5	202	--	--	--	--	--
Medium Human Development							
Libya	2.6	356	--	--	--	--	2
KSA	3	137	--	--	--	--	8.3
Jordan	4.2	203	11.3	6.9	38.8	--	8.2
Tunisia	2.5	134	13.4	7.9	39.8	8.1	1.5
Algeria	3.3	113	9.6	6.1	35.3	--	3.4
Syria	2.5	140	--	--	--	--	6.6
Egypt	2.5	54	8	5.1	34.4	--	2.8

¹ In the majority of developing countries ,education is an important factor in getting a job

Morocco	1.7	51	11.7	7.2	39.5	6.3	4.5
Sudan	1.9	22	--	--	--	--	0
Low Human Development							
Senegal	2.1	6	12.8	7.5	41.3	4	1.4
Nigeria	1.3	28	17.8	9.7	43.7	--	1

Source: UNDP, Human Development Report 2006

In sum, poverty and income inequality are phenomena afflict the majority of countries around the world, and despite the large number of studies and researches that have been made to explain these phenomena and provide strategies to eradicate them, but these solutions have failed for various reasons. Now, does Islam offer a viable solution to eliminate these phenomena? On the other hand, despite the large number of researches on the themes of poverty, the poor and income distribution, as well as the Islamic framework on those topics, but there is no analytical study that encompasses the conventional economic side for those issues together with the Islamic framework of them, hence the importance of the current research which provides an analytical framework for the conventional economic view on poverty and income distribution, indicating the deficiencies of such view, and then shows that Zakat - the third pillar to the pillars of Islam -is worthy of the eradication of poverty and income inequality in the Muslim community. In practice, Bahrain did not estimate the size of Zakat to be collected, and of course did not examine the economic impact of Zakat funds in solving the problems of poverty and income inequality, and this - no doubt - is another importance for this research. On this basis, the objectives of the research are to show that for the Muslim community to observe and perform Zakat as was commanded by God almighty would put an end to poverty and the income gap in the community, which was failed to be done through policies and practices adopted by governments and nations in the conventional economies. To achieve this, the author estimates Zakat due in Bahrain and then shows its economic impact in the eradication of poverty and income inequality.

After the introduction, the author presents the concept of poverty and strategies to fight poverty in the conventional economy, then the failure of policies and practices adopted to fight poverty and income inequality in conventional economies is shown, as well as the failure of international practices in this regard, after that, the author presents the concept of poverty and income distribution in Islam and shows that, the Zakat, if observed and performed as ordered by God almighty, is capable of eradicating poverty and income inequality in the Muslim communities. The model used to estimate the value of due Zakat in Bahrain's economy and their impact on poverty and income distribution is introduced. The author then displays the measurement results, and finally offers some recommendations.

2. THE CONCEPT OF POVERTY IN CONVENTIONAL ECONOMY

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To start, we must admit that poverty is a complex issue with political, economic and social dimensions, and if the talk was about the presence of certain poor countries, we do not rule out the conspiracy theory to keep them poor and in permanent destitute of rich countries. For this, there is no specific definition that reflects this problem in all countries due to different economic, political, social and ideological conditions. In general we can say that poverty is the deprivation of any inability to acquire what an individual needs, resulting in reduced consumption, and low health status and educational level, etc. The World Bank has defined low-income or poor countries as those countries in which the per capita income is less than \$ 600 annually. Around 45 countries mostly in Africa match this definition. Hence, the concept of poverty varies from country to country and also within a single country from time to time, poverty is a dynamic phenomenon viewed differently according to several factors, including economic, social and political factors. It may be easier to identify who the poor are in order to develop an alternative definition of poverty. The poor are those who cannot meet the basic needs of their livelihoods, and consequently, suffer from malnutrition and sometimes from a lack of nutrition, low health level, spread of diseases and also unemployment in its wider sense. Poor people suffer from hunger, disease, ignorance and unemployment. The picture differs from one country to another which called people to distinguish between many types of poverty, such as relative poverty, absolute poverty and extreme poverty in addition to other types such as individual poverty and social poverty, and so on. There are categories of work that is. There are groups that work, gain a share of the education, have health insurance but their income is not enough to remove their status of poverty (**Abdelbaki, H., 2011**).

3. STRATEGIES TO FIGHT POVERTY IN CONVENTIONAL ECONOMY

Countries use packages of policies include price policies, income and wage policies, labor market and production policies and other policy packages such as structural and stabilization policies to alleviate poverty and achieve income equality. The effects of these policy packages on poverty and income gap in the national economy may be direct or indirect. The indirect effects conducted through effecting on demand and supply. Whereas, the direct effect of the policies conducted through using employment, subsidy and wage policies that effect directly on the workers especially in the formal sector. The World Bank provides three approaches for poverty alleviation (**The World Bank, 1991 & 2004**): the first is to strengthen economic growth through helping the poor to increase their productivity and then their wages. The main economic growth policies include encouraging the small and medium businesses, supporting the rural development and agricultural sector and offer the finance to the poorer areas. But experience has shown that effects of such policies have been limited. The second approach aims at increasing the investment in human capital to push human development especially in the poorer

areas. The main objectives of these policies are to reduce dropout rates, decline illiteracy rates, improvement the infrastructure in health and education areas, extend the health insurance umbrella to cover the poor, provide clean water and sanitation to poor areas, support civil society institutions, increase decentralization and participation in political life. But those policies conflict with the deflationary policies that form the pillars for the economic reform programs supported by the international monetary Fund and the World Bank, as well as low public investment in general in these countries due to lower public revenues available. Finally, the third approach is to raise the transfer payments to the poorer areas to enhance the economic welfare. Again, this approach is contrary to policies of economic reform programs.

Analyzing the World Bank strategies to fight poverty state that these strategies are marred by a lot of shortages and even conflicts with each other, they are demanding an increase of government spending to support the poor, increase transfer payments, follow the policies of price discriminations in the health sector and increase public investment to bush the economic growth, particularly in rural areas. All those strategies are contrary to the general characteristics of the capitalist system which control the economic reform programs imposed on the countries required to follow strategies for fighting poverty. Consequently, the final results confirm the failure of those strategies as will be detailed.

4. FAILURE OF PREVALENT POLICIES

In the following, we demonstrate the failure of policies applied in the conventional economy to fight poverty and income inequality.

4.1 Failure of the Minimum Wage Policy

Government specifies a minimum wage for government workers to ensure them the return that guarantees a decent life. There is no doubt that the value of minimum wage varies from country to country and from time to time within the same country, which requires continuous review of such policy to make sure it fits with current prices. But what is happening in many countries, especially poor ones, that governments are reluctant to carry this role, especially with the policy of hiring graduates and which burdens governments and increases deficit in their public budget. This has led to a wage freeze and a commitment only to the annual raise that does not commensurate with the rates of inflation, which means a decrease in real wages. Real wages declined in Egypt from 80.4 in 1980/1981 to 67.8 in 1994/1995 (**Radwan, S., 1997**); they also declined in Yemen from 5,600 Yemeni riyals in the early nineties to less than 1,000 Yemeni riyals in 1996 (**The World Bank, 1996**). For the private sector, governments tend to consider that the contract is the law of the contractors, which means that wages in this sector are determined by supply and demand away from government control, which led to the

increasing wage gap between public sector and private sector wages in some Arab countries, including Kuwait and Saudi Arabia.

Wages and level of productivity are associated with a close relationship. With the low level of labor productivity in poor countries generates low wages that do not provide the basic needs of workers, for example, the cost of labor unit in Oman was reduced by 33% during the period 1980 to 1995 (Chami, S., 1991). Worker productivity is affected by three factors, namely (Korim, K., 2005): (1) the educational level (2) the availability of health services and (3) the availability of access to assets and credit. These factors are also reasons for the low productivity which again supports low wages. Wages in many poor countries became like subsidies for employees that weighs heavily on the public budgets. Low productivity results in increasing numbers of unemployed and the unemployment rate goes up leading to lower production and thus less employment and income and the consequent problems of the recession. Although low labor productivity is the main clear reason for unemployment, there are other reasons to support that, where causes of unemployment differs from one country to another according to adopted policies, In Egypt, the policy of hiring graduates that have been followed for a number of years was a fundamental reason for the overcrowding in the public and government sector with unemployed of the disguised unemployment type, while the policy of bringing in foreign labor followed in the Gulf economies was an important reason in overcrowded informal sector with non-skilled expatriate labor that competed with local labor leading to spread unemployment among national workers for reasons, like not accepting to work in some jobs on the one hand and not accepting low paid work taken by the expats on the other hand.

Unemployment leads to a high rate of dependency burden which affects income distribution. For individuals with large families, the burden is high for family members at working age that means that the working members will save less, since they need to spend on the family, which will affect the distribution of income between different groups due to different rate of dependency among them. It is worth mentioning that high dependency ratio increases poverty and income inequality in the economy.

4.2 Failure of the Interest Rate Policy

In the conventional economy, the interest rate policy is used to achieve many goals, including providing the necessary liquidity for the poor, but this goal in itself is incompatible with the objectives of banking and financial sector in the conventional economy, which aims to achieve higher profits, with the need for higher levels of guarantees in the case of lending, which means that the rich are those who can benefit from the financial sector in the economy. This conclusion is supported by the fact that the financial system especially banks may be available in high income-classes and urban areas and not available in low income-classes and rural with the same efficiency. And that the families in the high income category in some regions may be aware and familiar with banking transactions more than low-income groups in other regions. It is obvious

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that the marginal propensity to save among households with high-income groups in urban areas often exceeds the marginal propensity to save in low-income families in rural areas. Finally, the prevalence of self-investments in rural areas more than those in urban areas results in the inability of those areas to benefit from that sector.

The negative impact of uncertainty on the financial markets and credit in the national economy is shown in: (1) dealing in lemons, where the high interest rates affect the return of financial institutions through two effects: the familiar positive effect, where an increase in interest rates increases the revenues of financial institutions assuming unchanging of other influencing factors. Then comes what is called the impact of adverse selection, which works in the opposite direction, where raising the interest rates by financial institutions increases projects with high returns and high risk as well, as borrowers who are willing to pay high interest rates are themselves the owners of high returns and high risk projects. At the same time borrowers with low yields and low-risk projects retreat, as they do not want to pay high interest rates. As a result of this effect, most borrowers are of the group of borrowers with low capacity to meet financial obligations of financial institutions, here financial institutions have to deal with them and name that process - that is, dealing with the worst credit borrowers – as deal in lemons². On the other hand, higher interest rates may result in negative change in the behavior of borrowers (Moral hazard), as higher interest rates will attract projects with high risk, and reduce the expected return to borrowers of projects with low risk and low yield at a rate greater than that for projects of high risk and high return, which may induce borrowers to demand for the first projects, thereby reducing the revenues of financial institutions. If interest rates were low, the direct positive impact for the increased interest rates may have an effect equivalent to that of adverse selection and moral hazard, and then the revenues for financial institutions would increase with the increase in interest rates up to a certain level then the return falls as a result of the two mentioned effects. And (2) when the two mentioned effects for interest rate are dominant, financial institutions prefer to reduce the credit with consequent reduction of investment, leading to deflationary effects on the national economy as a whole, and of course the poor segments are affected more than others due to economic stagnation (**Abdelbaki, H., 2012**).

4.3 Failure of the Price Policy

The use of price policy to affect poverty and income distribution means that the government is reducing the prices of certain goods owned by categories, regions or

² Akerlof (1970) presented the problem of Lemon, where the buyer of a used commodity does not usually have information on the quality of that commodity which is known to the seller that is why the buyer is willing to pay an average price for the commodity. Then owners of good commodities would have to leave the market because the average price is too low. Then lower-quality goods only remain which are called the Lemons.

specific sectors of society. Government sets a price ceiling for essential commodities acquired by the poor³.

Experiments proved the failure of those policies to restrain inflation as well as countries that are required to follow those policies are also required not to intervene in the functioning of markets and leave them to the supply and demand force.

4.4 Failure of the Exchange Rate Policy

By exchange rate policy, the price of the currency exchange is depreciated or appreciated with an intention to make an impact on income distribution. Devaluation policy affect the relative real prices of goods, which increases the prices of export commodities denominated in local currency and lowers the prices of those commodities denominated in foreign currency, which lowers domestic demand for foreign goods, and increases foreign demand for domestic goods leading to increased exports and reduced imports, or in other words, more cash inflow and less cash outflow. Such changes would encourage production for export, increasing domestic production and thus employment and income in the export sectors, which means to redistribution of income in favor of the sectors concerned.

But the practical application of the policy determines that its implementation comes through the Devaluation policy with the consequent of high inflation rate due to rising import prices, which adversely affects the poverty and the poor, in addition that the wealthy sectors are benefiting from this policy at a degree more than the poor sectors.

4.5 Failure of the Subsidy Policy

The networks of social security, aim at reducing the income inequality by providing different forms of support to the poor. The efficiency of such networks is measured by their ability to deliver support to various beneficiaries. On comparing the efficiency of Zakat and the efficiency of the social and governmental security networks in Yemen, the study showed that the efficiency of Zakat to reach the beneficiaries is greater than that of social and governmental security networks. The study also indicated that the effect of Zakat network is wider than that of the social and governmental social networks, as well as the average value of the amounts transferred to needy family in the case of Zakat exceeds that of the support received through social networks, (Alqudsy, S., 1995), which is shown in table (2), where the poorest deciles received YR 940 of Zakat, and the same deciles received 886 riyals from security networks. The richest deciles got 469 riyals from Zakat, and 739 riyals from security networks, which confirmed the efficiency of Zakat to reach the deserved recipients compared to social and governmental security

³ Another purpose of setting a price ceiling is to stop the inflationary trends in the community.

networks. It is noted that transfers of international organizations are characterized by low efficiency as well.

Table (2) Zakat and government and non-government networks efficiencies in Yemen

Income deciles	Zakat	Government and non-government transfers	Individual transfers from inside	individuals transfers from abroad	organizations transfers
poorest deciles	940	886	1147	492	58
Second	895	666	2869	1334	50
Third	820	717	3628	1634	14
Fourth	795	462	4171	2284	20
Fifth	700	371	3050	2950	54
Sixth	690	728	3886	4472	20
Seventh	671	432	4666	8332	219
Eighth	678	706	4882	13594	107
Ninth	618	914	8198	22444	3820
Richest deciles	469	739	14758	94228	20624

Source: Alqudsy, S., 1995.

As for subsidy of goods, studies have shown that the kind of government subsidy programs do not always achieve efficiency in the delivery of subsidy to those who deserves it, especially with the spread of corruption in various forms like bribes and embezzlement etc. In Egypt, the government's subsidy of bread was characterized by low efficiency, especially in rural areas (**Adams, 2000**). In Yemen also, the subsidy programs for wheat, electricity and fuels are characterized by low efficiency to reach those who deserve them, as the share of the poorest deciles of wheat subsidies does not exceed 2.5, while the share of richest deciles of the same mounts up to 30.7. The case is same for fuel subsidies; the share of the poorer deciles reaches only 2.0, while the share of richest deciles reaches 37.1. In the case of electricity subsidy, the share of poorest deciles reaches 6.4, this amount increases until the sixth deciles then falls for the seventh deciles, then starts increasing with the income till it reaches 13.1 for the richest deciles (table 3). The situation in Kuwait does not differ a lot with government providing a package of cash and good-subsidy programs, where subsidy for high spending elasticity commodities like electricity and fuel makes the higher income groups benefit more than low-income groups. In the case of drinking water subsidy, the share of the richest deciles is higher than the share of the lowest deciles by 21-times (**Al qudsy, S., 1995**).

Table (3) Distribution of good subsidies in Yemen

Income deciles	Wheat	Electricity	Fuels
poorest deciles	2.5	6.4	2
Second	4.2	7.5	3.3
Third	5	8.9	3.5
Fourth	6	9.2	5.1
Fifth	7.2	9.8	6.1
Sixth	8.2	10.9	6.8
Seventh	9.6	10.6	8.8
Eighth	11.9	11.7	12.4
Ninth	14.6	11.7	14.9
Richest deciles	30.7	13.1	37.1

Source: The World Bank, 1996

In summary, the social security networks have failed to deliver support to those who deserve it for many reasons, especially the spread of corruption in the countries that suffer from poverty and income inequality.

4.6 Failure of Tax Policy

In developing countries, which usually suffer from problems of poverty and income inequality among its citizens, the main objective of taxation is to increase revenues through increasing tax rates, which leads to a decline in economic activity and decreases production, employment and income. The influence of this policy is stronger on the poor. Moreover, the tax policy in the majority of developing and poor countries suffers from many disadvantages and obstacles that eliminate the efficiency of such policy and its role in the income redistribution in favor of the poor classes. Of those problems are tax evasion, costs of collection, corruption of tax collective system, poor use of tax revenues for the benefit of the economy, in addition that an inappropriate tax policy leads to inflation, with all the burdens it leave on the poor.

5. FAILURE OF INTERNATIONAL PRACTICES / POLICIES AND ITS FAILURE IN REMEDIES

In addition to internal policies exercised optionally or mandatory by each country for the treatment of problems of poverty and income inequality, there are some practices and international policies that affect developing and poorest countries and aggravate their problems of poverty and income inequality. Following are the most important of these policies:

5.1 Economic Reform Programs

No doubt that the economic reform programs determined by the IMF and World Bank are capitalist programs aimed at reducing the economy's role in economic activity by reducing public spending in general and subsidies, in particular, activating the market prices mechanism, encouraging the private sector. These policies and procedures are negatively affect the poorer sections of society and increase the income gap. The effects of economic reform programs on poverty and income distribution in the national economy can be measured using three standards: first is the standard of real income, where a drop of the real income in the economy means that the economic reform programs had a negative impact on poverty and income distribution, second is the standard of cost of living, where the rise in the cost of living reflects the negative effects of the programs concerned, and finally the standard of social services provided by the national economy at affordable prices, where an increase in such services means that the economic reform programs have positive effects on poverty and income distribution in the society.

Regardless of the mandatory policy for poor countries to implement such programs, the negative effects of these programs as a whole exceeded their positive effects, resulting in increased numbers of the poor, spread of unemployment, deepening recession and the consequent effects in those countries. After Algeria had come a long way in economic reform programs, the unemployment rate among citizens less than 20 years old was 49% in 2004, 44% among young people aged between 20-24 years, and 73 % among those less than 30 years in that year compared to 42% in the year 1996. It is not different in Egypt, which adopted the economic reform programs with the IMF and the World Bank in 1990, where such programs had resulted in deep negative effects on poverty and the poor as well as widening the income gap. Although Egypt tried to mitigate the negative impacts on the poor through some programs including the Social Fund but, malpractice, corruption and weak budgets prevented the achievement of desired objectives, poverty and the poor has increased significantly, as the Egyptian household Expenditure Survey showed that 44% of the populations are not able to get the minimum adequate food (**Abdelbaki, H, 2003**).

5.2 Globalization and the New World System

International economic system means the set of rules and arrangements that have been developed after World War II to set the code of conduct in the economic relations between different countries, and globalization is one of the steps in this system. The international economic system consists of 1 - the international monetary system, which is the system that governs and sets rules of conducting in all matters relating to exchange rates, balance of payments, sources to finance deficit and the quality of corrective policies that countries may be follow, and thus the system is supposed to ensure

international monetary stability in the new world economic system, through the International Monetary Fund. And 2 - the international financial system, which is the system that governs the code of conducting in all aspects of transactions or transfer of international capital, whether they were in the form of foreign aid or foreign loans, whether they were formal or of business form and whether they were foreign direct or indirect investment, through the world bank. Finally, 3 - the international trading system, which is the system that governs the rules of conduct in all matters relating to export and import of goods, and to determine what may and may not be of protectionist measures or export subsidies, and even work through this system to liberalize world trade to increase international exchange and consolidate the principle of interdependence and maximize the return on international trade for all parties in the global economy. The Secretariat of GATT worked to maintain the continuity of this component of the global economic system, until the formation of the World Trade Organization (WTO), following the Uruguay multilateral trade negotiations, to take over the administration of the International trading system as of January 1995 (Sharaf, A., 1992; Sameeha, F., 1993).

It goes without saying that the worst consequences of globalization and new international system were those huge changes which negatively impacted social development, including what happened in Eastern Europe and Central Asia, where the numbers of poor were aggravated, also the ignorance of industrialized countries of the global warming issue which was originally caused by them. But, the most serious result of globalization and new international system was the global economic and financial crises, which when appear in one country quickly spread all over the world whether poor or rich, but the greatest impact, of course, falls on the poor countries which were not the cause of these crises. The world is still recovering from the recent global crisis that began in the United States as a result of irresponsible practices from the financial and real estate sectors, but the impact covered the bulk of the international economy, and perhaps the effect was weak in China because it has been conservative on globalization and its application. Then comes the blatant interference by dominant countries in the politics of weaker nations, which adversely affects the economics of these nations causing situations to worsen.

In sum, the international practices, although sometimes designed to treat the problems and shortcomings in the policies of poor countries, but the overall effects are not in favor of the poorer classes in those countries.

6. CONCEPTS OF POVERTY AND INCOME DISTRIBUTION IN ISLAM

In this part, the concepts of poverty and income distribution in Islam, and then how the Zakat, as one of the pillars of Islam, can eliminate poverty and achieve the equality in distribution of income among the members of the Muslim community as well as among different generations is presented. Then the author displayed a model to

estimate the value of Zakat in Bahrain, and measure their impact on poverty and income distribution.

6.1 Concept of Poverty in Islam

Islam encourages people to go for the legitimate productive work through a several orders and instructions in holly Quran and Hadith: God almighty said: And when the Prayer is finished, then may be dispersed through the land, and seek of the Bounty of Allah. And celebrate the Praises of Allah often (and without stint): that may prosper. (Al-Jumaa, verse, 10). The prophet's says: (the best profit for a man is what he makes with his hands and whatever a man spent on himself, his sons and his servants is charity) way of (Sunan) Ibn Majah, chapter of motivation to gain, No. 2137. Also He says (the best food eaten by a man is from the work of his hands, and that Prophet of God David was eating from the work of his hand) *Fath albari to explain Sahih Al-Bukhari, Ibn Hajar*, book of sales, chapter of earning of the man, section 9, p 154. Islam forbids beggary where Islam considers the legitimate productive work as the right way to fulfill the needs. Beggary are only permitted in three cases: 1) in case of extreme poverty, 2) in case of the debtors, and 3) in case of those fined due to blood money. It is clearer that begging without an urgent need is illegitimate in Islam. The holy Prophet says "(he who ask people for their money to grow his money is just asking a firebrand, so he might ask for more or less", Muslim, Saheeh, the chapter of hatred of Begging, section 2, p 720. However Islam acknowledges poverty and considers it a danger to the family and the society as a whole, Islam also considers poverty as scourge and we should seek refuge in Allah from its evil. The Holy Prophet used to seek refuge saying (O Allah, I seek refuge in You from the trials of fire, torment of the grave, and seek refuge in You from the temptation of wealth, and seek refuge in You from the trials of poverty) also the prophet peace and blessings be upon him used to pair seeking refuge from poverty and disbelief saying (O Allah, I seek refuge in You from disbelief and poverty, I seek refuge in You from the torment of the grave, there is no god but You,) "narrated by Abu Dawood. Poverty in Islam means need or want, God Almighty says " O mankind, you are those in need of Allah " in the sense you are in need of God. God also said "and God is rich and you are the poor who need him" in the sense of the need for the necessities of life. Islam differentiates between the poor and needy, the poor is who have what is not enough, the needy is who have nothing to take shelter with. Islam also distinguishes between different types of poverty, relative poverty means variation of people's income which is recognized as a universal norm due to the varying capacities of individuals and the amount of efforts they put in their work, God almighty says, " And it is He who has made you successors upon the earth and has raised some of you above others in degrees [of rank] that He may try you through what He has given you" (165, Al-Anaam),also God almighty says," Do they distribute the mercy of your Lord? It is We who have apportioned among them their livelihood in the life of this world and have raised some of them above others in degrees [of rank] that they may make use of one another for service. But the mercy of your Lord is better than whatever they accumulate" (32, Zukhruf). The

goal behind the variation in livelihoods is tribulation, dedication of work and order to set life straight, people vary in their abilities, their skills and efforts, and then their works, revenue and income. Then there is class poverty which means the inability of the individual to satisfy his needs, in other words, the inability to achieve sufficiency. Sufficiency means the necessary money to provide the basic needs of the individual, to set his life straight and live according to the prevailing living standards, hence sufficiency is a dynamic concept that changes from one society to another and from time to time within the same society. For the Muslim community to live in harmony, peace and security Islam imposed many forms of mandatory and redundancy worships to reduce poverty in the Muslim community on the one hand and to ensure full security between rich and poor on the other, in order to ensure minimum standard of living for the poor, which guarantees them sufficiency.

6.2. The Concept of Income Distribution in Islam

Islam sees that absolute justice means the disparity of livelihoods with the need to achieve human justice. Islam also rejects considering money as the great fundamental value, but the individual should have sufficiency preferably through individual ownership or through a productive work in its various forms. Islam confirms absolute equality of all Muslims in the provision of sufficiency, in other words, if a Muslim is unable to provide enough for his illness or old age or.... etc, the government should provide that to him from the treasury. God almighty says "Indeed, it is [promised] for you not to be hungry therein or be unclothed. And indeed, you will not be thirsty therein or be hot from the sun." (Taha, verses 118 and 119), the prophet (pbh) says "he who sleeps sated and his neighbor is hungry is not a believer in me" (al Suyuti), but, for more than sufficiency, Islam confirms variation

In Islam, income and wealth are distributed via three stages: first is the initial distribution of wealth through acquisitions, where Islam recognizes private property according to specific conditions and procedures based on the principle (that wealth is the wealth of God and human beings are appointed as successors to that wealth). Islam also regulates the investment of private property by a set of rules and restrictions to ensure the provision of community needs and well-being of its members. Islam also recognizes public property in order to achieve specific goals, such as achieve balance between individuals in one generation, achieve balance between successive generations, and achieve development of the Muslim community. Second, through which revenues are distributed over the factors of production in the community. Finally in the third stage, some changes are introduced to the existing distribution of income and wealth, or the so-called redistribution of income in favor of certain groups at the expense of other categories.

6.3 The Role of Zakat in Eradicating Poverty and Income Inequality

In this part, the author demonstrates that Zakat is an important tool, if performed as it should, can eliminate poverty and achieve justice in the distribution of income and wealth in Muslim societies.

6.3.1. The Objectives of Zakat

God almighty imposed Zakat, as He says "So establish regular Prayer and give regular Charity; and obey the Messenger that ye may receive mercy,"(Al-Nur, verse 56). From Zakat many effects are resulted on the individual and society, it cleanses the heart of the one who performed Zakat and removes rancor and hatred from the heart of the one who deserved Zakat, and then establishes security and tranquility in the community, and addresses many other social problems. In addition, Zakat Blesses and develops the money and increases the merits of the performer. God almighty said, "The parable of those who spend their substance in the way of Allah is that of a grain of corn: it growth seven ears, and each ear Hath a hundred grains. Allah gives manifold increase to whom He please: And Allah cares for all and He knows all things." (Al Baqara, verse 261). Objectives of Zakat are many; those can be summarized into moral, social and economic objectives. The moral objective is visualized in cleansing of the Zakat funds; the social objective is visualized in the redistribution of income in favor of the eight social groups⁴ especially the poor and needy. The economic objectives is visualized in fighting hoarding and moving the cash ⁵flow to support the necessary expenditure at the expense of luxury spending, fighting consumer loans and encouraging non-usury loans for those in bondage or heavily indebted (*AL GHARMEEN*).

6.3.2. Zakat and Eradicate Poverty and Achieve Equitable Distribution

Zakat plays an important role in reducing the problem of poverty in the Muslim community, in addition to its vital and influential role in its development through redistribution of income and wealth for the benefit of the poorest. But the important question now is: is performing Zakat alone in the manner intended by God Almighty sufficient to achieve these two objectives: eradication of poverty and the achievement of equal distribution? We try to answer this question through the following points:

Islam had exclusively determined the eight groups to whom Zakat funds could be given, and it is noted that these groups are the poorest in society, consequently, expenditure on necessary consumption increases thus increasing the aggregate demand in the community. Employers respond to this increase by increasing employment and

⁴ God almighty says" Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage and in debt; in the cause of Allah. and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom."Al Baqara, verse 60.

production in the next stage which increases income. Depending on the income, a new cycle of increased demand and employment, production and income starts and so on. Due to spending multipliers in the community, income will be multiplied accordingly, and the national economy will be revived. On the other hand, the marginal utility of money for the rich is lower than that of the poor, and therefore the latter will be keen to spend Zakat funds received to purchase the necessary goods only as already mentioned. Also increased spending leads to increased marginal propensity to consume in the community, thereby increasing the value of the multiplier, and then increase the strength of its effect on the national economy.

Since Zakat was imposed on saved money, the lack of investment of such money leads to erosion year after year which is an irrational behavior that Islam does not approve, so 'Umar ibn al-Khattab said (Do trade in the property of orphans so as not to be eaten by Zakat)⁶. Also holding the money and not performing Zakat on that money is forbidden in Islam. Thus, the saved money would move into investment which would benefit the community, through the revitalization of demand and production and then employment and income.

The individual who is to pay Zakat must go to where there is Zakat beneficiary to give him his due, and here is where the greatness of Islam is shown, this consolidates in the owner of the money that there is a due to be paid and he needs a Zakat beneficiary to give him this right, on the other hand, it saves the face of the person entitled to Zakat. And economically, this means the absence of evasion from payment of Zakat as is the case of tax, and also eliminates the expenses of collection.

One of the forms of giving Zakat is to the indebted (AL GHARM) , and AL GHARM is a person who cannot meet a debt he has which is not the result of sin or wrong doing, this form also include a person who lost his business, his factory or his goods. Hence the direction of Zakat to them means to re-integrate them into the production process, and hence the community will continue to benefit from them and the production is not affected by their circumstances⁷.

Zakat may be accelerated when needed, for example, the payment of Zakat may be accelerated in the case of economic recession, which will help to avoid recession

⁶ "See Imam Malik bin Anas al-Muwatta, number (588), (103/2), the Arab Book House, Beirut, 1988."

⁷ Mujahid said - a Mujahid bin Jabr Al Imam Sheikh of readers and commentators - in share of debtors: " debtors are Three: A man flood wipes his money, a man fire went away with his money, and a man with children and no money ,he is indebted and spends on his family" and this year we don't exempt someone lost his investment and lost his money, or someone who borrowed for investment business and lost for one reason or another".

through payment of debts, production, employment and income. It is also allowed to pay the full Zakat in one of its eight forms to ensure the achievement of its objectives.

Zakat does not cease to exist once you do it for one time, but it remains mandatory as long as its two conditions: the required amount of money and the time period exist. Also the diversity in Zakat forms means that it could be performed throughout the year.

Zakat will not be accepted by God unless they were from a good legitimate source (halal), the Prophet (pbuh) says: (God the almighty only accepts charity from good money, and a charity from a good source given by a man would be accepted and developed by God as if someone is developing and caring for his foal)

In sum, the Zakat - If performed as imposed by God Almighty - would be enough to eradicate poverty and then poor distribution of income in Muslim societies. It is sufficient to note that the financial assets in banks for the wealthy Arabs – their number is estimated at two hundred thousand - is more than 1190 billion dollars (**Boulard, B., 2001**), and then value of Zakat levied on those amounts is 29.8 billion dollars. These amounts are capable of eradicating poverty in Arab countries, and create employment opportunities for the unemployed in all Arab countries. Therefore following the principles of Islam through one pillar only (Zakat) can guarantee the eradication of poverty and then income and wealth inequality in Islamic communities.

7. ESTIMATING THE EFFECT OF ZAKAT ON POVERTY AND INCOME INEQUALITY IN BAHRAIN

The Kingdom of Bahrain has taken many procedures and policies for the reduction of poverty and poor distribution of income in the Kingdom (**Abdelbaki, H., 2011**). Among the most important procedures taken in this regard were the establishment of the Zakat and charity Fund based on the Decree-by- Law No. (8) For 1979 amended by Decree-by- Law No. (12) For the year 1993, to be the official agency accredited for the collection of Zakat and charity and distributing them to recipients according to their legitimate forms. The fund aims to increase awareness of the obligation of Zakat and show the importance of performing it, the development of sources of Zakat and alms and the mechanisms for their collection and disbursement and work to bridge the need of poor families eligible for Zakat. The total aid provided by the Fund for needy families over the last six years was about 1060458, which included more than 2000 families. In practice in the Kingdom of Bahrain, the Zakat and charity Fund collects Zakat and alms money optionally from institutions, bodies and banks that are willing to pay that money and the majority of that money is donated as alms. The Fund does not Separate the Zakat funds and charity funds when distributing, as well as the fund suffers lack of human resources required to manage work perfectly.

7.1. Calculating total value of Zakat in the Muslim national economy

Three types of Zakat should be collected in Islamic economy; 1- Zakat on the current income, 2- Zakat on capital and 3- Zakat on saving. The total Zakat value is:

$$R = R_y + R_s + R_k \quad (1)$$

$$R_y = Z_y \cdot Y \quad (2)$$

$$R_k = Z_k \cdot K_n \quad (3)$$

$$R_s = Z_s \cdot S = Z_s \cdot j \cdot g \cdot Y_d \quad 0 < j < 1, \quad g = 1 - b \quad (4)$$

Where R is the total value of Zakat in the national economy, R_y is the Zakat value on current income in the economy, R_s is the Zakat value on savings, R_k is the Zakat value on capital in the economy, Z_y is the Zakat ratio on current incomes, $\cdot Y$ is the committed to Zakat, Z_s Zakat ratio on savings, S saving committed to Zakat, g is the propensity to save, b is the propensity to consume, Z_k Zakat ratio on capital, and finally, K_n is committed amount of capital to Zakat. The total Zakat value equation can be rewritten as follows:

$$R = ZY (\cdot + j \cdot g) + ZK_n = z (Y (\cdot + j \cdot g) + K_n) \quad (5)$$

Where Z Is the average weighted of Z_s, Z_y, Z_k

7.2. The Effect of Zakat on Poverty

The Zakat value on the national economy will be spent on its Sharai outlays which is the poor. Then will help in alleviating / eradicating the poverty and the poor in the economy. To catch the effect of Zakat in this issue, we estimate the portion of the Zakat that goes to consumption and, partly, to the investment in the national economy. The Zakat value directed to the consumption can be written as:

$$R_c = dR \quad (6)$$

$$R_c = d \cdot z (Y (\cdot + j \cdot g) + K_n) \quad (7)$$

7.2.1. Effect of Proportion Spend on Consumption

The consumption function in a conventional (secular) economy can be written as:

$$C_s = a + b Y \quad (8)$$

In Islamic economy, the consumers divided into two groups: Zakat payers (group 1) and Zakat recipients (group 2). The marginal propensity to consume for group 1 is different from that for group 2. The consumption function in Islamic economy, therefore, becomes:

$$C_1 = a + b (\beta Y - \alpha Y) + c ((1 - \beta) Y + \alpha Y) \quad (9)$$

Where b and c are marginal propensity to consume of group 1 and 2 respectively. βY is income of group 1, $(1 - \beta) Y$, is income for group 2, and αY is the amount of Zakat paid. The consumption function above is greater in value than that is in a conventional (secular) economy. The effects of that are two effects; it will reduce the poverty and the

poor people in the economy and will increase the total demand which leads to increase production and employment in the economy which support the first effect especially with the expenditure multipliers effects. This analysis is based on three assumptions; first, the marginal propensity to consume of the Zakat-receivers is higher than that of the Zakat-payers. Second, there are always enough poor people in the country to receive Zakat. Third assumption is the government spends the Zakat on its eight categories with a very high priority to the poor and needy.

7.2.2. *Effect of Proportion Spending on Investment*

This part of spending comes from invest in projects that support increases the poor income such as investment in small skill project and by reactivate the projects of AL GHARMEEN by paying their debits. The investment function in Muslim economy can be written as follows:

$$I_I = I_0 - \beta (r - Z) \quad (10)$$

Where I_0 is the independent investment, r is the share return, Z is Zakat ratio, and β is the constant investment coefficient. Adding the Zakat portion that directed to the investment function becomes as follows:

$$I = I_I + R_I \quad (11)$$

$$R_I = (1 - d) R = (1 - d) \times z(Y (\xi + j * g) + Kn) \quad (12)$$

Where I refers to total investment, I_I independent investment, R_I is the Zakat value directed to investment.

8. THE RESULTS

Using the previous model, we calculated the total value of Zakat imposed in Bahrain's economy during the period 1990 - 2010, which is consisting of Zakat on the current incomes, Zakat on Investment and Zakat on savings. The results show that the value of total Zakat has increased from BD 95.3 million in 1991 to BD 139.1 million in 1997 and decreased in 1998 to BD 114.7 million, then increased to reach BD 623.5 million in 2008 and decreased again in 2009 to BD 485.8 million.

To measure the impact of Zakat on consumption, the value of oriented Zakat (allocated) for consumption is calculated assuming three values of 0.7, 0.75 and 0.8 for the marginal propensity to consume, then the number of families that can benefit from those values is estimated. The number of beneficiary families is estimated by dividing the value of Zakat for consumption on the middle-income, as the studies that were conducted on poverty in Bahrain during the period 1987 - 2008 set the poverty line between 309 dinars to 403 dinars per month (**Abdelbaki, H, 2011**), so we assumed that the poverty line in Bahrain is determined at 400 dinars per month. The number of families that can benefit from the funds of Zakat reached 17,070 families in 1990, this number increases during the period 1990 to 2010 with the exception of 2009, to reach up to 119,288

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families in 2008, and 102,275 families in 2010, which means that, based on the marginal propensity to consume which is equal to 0.7, the Zakat funds are capable of eradicating poverty in Bahrain. These numbers would increase in the cases of marginal propensity of 0.75 and 0.8, respectively.

For measuring the impact of Zakat on investment, the author calculated the number of projects that could be financed with Zakat funds allocated for investment on the basis that the portion of Zakat funds allocated for investment equals the total value of Zakat money minus the portion of Zakat funds for consumption. The numbers of projects that can benefit from the Zakat funds allocated for investment were calculated by dividing these funds on the average cost of small projects based on the estimations of the studies carried out in this regard. The number of projects that can benefit from that money reached 44 projects in the year 2001 increased to 263 projects in 2010. Assuming that a small-scale project employs 10 workers, these projects could provide 440 and 2630 job opportunities in the years 2001 and 2010 respectively. So, providing job opportunities would increase income and consumption in addition to savings and investment and, due to spending multipliers, the domestic income of the Bahraini economy would double⁸. All that would reduce poverty and income disparities between income groups in Bahrain because Zakat money funds small projects owned by low income groups and also provide jobs for the unemployed.

Finally, to assess the impact of Zakat on the gross domestic product, the researcher calculates the gross domestic product after the impact of Zakat on consumption and investment, as well as calculating the value of change in gross domestic product as a result of change in investment multiplied by the investment multiplier⁹. The results show GDP values after Zakat are greater than those before it and the gap between them increases over time¹⁰

9. CONCLUDING REMARKS

The research aimed at showing that the problems of poverty and income inequality represent global phenomena that, despite the attention of researchers and politicians in them and the efforts made to reduce them through many strategies and policies but, they failed to achieve the desired results. The author explained that the third

⁸ According to the three assumed values of marginal propensity to consume.

⁹ Value of the multiplier was calculated according to the three assumed cases of marginal propensity to consumption in the research.

¹⁰ It goes without saying that the decline in GDP in 2009 was due to the negative impact of the global financial crisis.

pillar of Islam "the Zakat" is capable of eradicating poverty in Muslim communities and achieve the desired justice in the distribution of income and wealth. The author estimated the size of Zakat imposed in Bahrain and its economic impact on the eradication of poverty and income distribution. The most important recommendations are the need to pass legislation that requires the collection of Zakat from different sectors, organizations and institutions as well as individuals. Also, the administrators of the Zakat Fund must completely separate between the Zakat funds and charity funds, so they can be able to use Zakat funds in the eight legitimate ways. The most important limitation of the current research is not taking into account the possibility of not directing all Zakat revenues to the poor, where the more money directed to poorest eligible (first of the eligible categories) the greater the effect will be on consumption, then on poverty and income distribution, and that requires a comprehensive field study.

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