

Can Zakat help to enhance financial inclusion? Case study Egypt

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Abstract:

This paper investigates the impact of zakat on the reduction of poverty in Egypt by estimating the resource gap between reducing poverty and the potential collection of zakat.

Also, this paper discusses the role of zakat on financial inclusion and illustrates the experience of Malaysia and Indonesia in using zakat as a tool to reduce poverty and income inequality.

Finally, it compares between the resource gap of poverty reduction and the potential zakat collection in Egypt; to determine whether zakat can eradicate or eliminate poverty. We used poverty gap to estimate resource shortfall to poverty reduction.

Note: Potential zakat collection estimated by classifying population into 3 categories: zakat payer, zakat receiver and neither zakat payer nor zakat receiver. For assessment; people receiving highest 20% of total income considered as zakat payer.

The most important results are that; potential collection of zakat can fill the resources gap for the poverty alleviation in Egypt. While Egyptian economy to establish an organization or institution to organize the zakat procedures in order to overcome a lot of problems facing applying zakat; like random collection and distribution of zakat and lack of cooperation and coordination between the parties working in the field of zakat.

Keywords: Egypt, Financial inclusion, poverty , zakat

Introduction

Financial inclusion plays an essential role in enhancing economic growth and in reducing poverty through empowering poor people to borrow to finance income enhancing assets together with human assets like education and health and to become micro entrepreneurs to generate income and at the end come out of poverty.

Islamic finance addresses the issue of financial inclusion from 2 sides one through promoting risk sharing while the other through particular instruments of redistribution of wealth among people like zakat, sadaqat and qard al hasan.

Zakat plays an essential role in enhancing access to finance and reducing poverty also it considered being one of the most vital redistributive instruments.

Other while, there are several policies applied by countries in order to reduce poverty as, price policies, income and wage policies, and labor production policies. However, poverty remains and these policies failed to solve the problem of poverty and inequality.

So, Zakat contributes in discovering solutions for nations and take care of issues like poverty and income inequality. The main objective of zakat is to eliminate poverty and inequality through providing the fundamental necessities of life.

The social importance of zakat, its role in handling poverty; it is seen as a suitable tool for achieving a more equitable distribution of wealth, for acquiring social stability and encouraging the circulation of capital in the economy.

Research objective: estimating the resource gap and the potential of zakat collection; by comparing the available resources with the required resources for poverty alleviation in order to determine whether zakat can eradicate poverty in Egypt.

To achieve the previous objective this paper consists of three sections; Section one: zakat as tool for financial inclusion. In this section we illustrate theoretical & historical background of zakat in financial inclusion by discussing the role of zakat in different areas as poverty, consumption and inequality.

Section two: the role of zakat to reduce poverty in Malaysia and Indonesia; in this section we highlight the Malaysian and Indonesian experiences by using zakat as tool to reduce poverty.

Section three: zakat in Egypt and its role in reducing poverty; in this section we estimate the resource gap, and the potential of zakat collection, then compare the available resources with the required resources to alleviate poverty.

Literature Review:

(Habib Ahmed, 2004) investigates the role of zakat and Awqaf institutions in poverty alleviation at the macro level, and explains the appropriate institutional framework of zakat and Awqaf to acquire the potential funds of zakat and Awqaf.

The study estimates the potential of zakat collection and resources required for poverty alleviation for a sample of 24 IDB member countries.

It divides the sample into two groups, group 1 measures poverty using 1\$/day and group 2 measures poverty using 2\$/day. The study assumes that transferring 1\$/day to a poor person in group 1 will move that person beyond the poverty line and 1\$ transfers to people with an income above 1\$ will bring them out of poverty according to 2\$ measure of poverty. For individuals whose income is less than 1\$, transfer 1\$ will move them up the 1\$ poverty line but still keep them in group 2.

Finally, concludes that zakat and awqaf should be incorporated into poverty reduction strategies. If it used effectively, they can play a critical role in redistributing opportunities and assets, enabling the poor to become productive. There is an essential need for zakat and awqaf institutions to coordinate their activities with various similar organizations.

(Shirazi, 2010) this study estimates the resources gap for poverty reduction and potential of zakat and waqf in the IDB member countries.

To calculate the total required amount for poverty elimination for a specific country, the study construct the poverty gap index (based on international poverty lines of 1.25\$ and 2\$ a day in 2005 PPP) then, convertes the poverty gap index to get the absolute shortfall of resources for that country.

For the potential zakat collection the study used by Kahf (1989) estimates, which assess zakat collection for eight Muslim countries by using the national income.

The study divides the countries into 3 groups and concludes that countries in group one and some in group two can easily fill the resource gap for the poverty alleviation, while all countries in group three cannot alleviate poverty by their own efforts.

(Hisham Abdelbaki, 2014), this study investigated the impact of zakat on aggregate consumption and poverty alleviation in Egypt.

The study estimates the potential zakat collection in Egypt while the potential zakat as percentages to GDP were 1.05%, 1.04% and 1% for years 2000, 2005 and 2008 respectively. Accordingly, zakat contributes by 0.233\$, 0.196 and 0.387 per day in years 2000, 2005 and 2008 respectively and these are not enough to alleviate poverty in the Egyptian Economy.

So, in this paper we will compare the resource gap for poverty reduction and the potential zakat collection in Egypt to determine whether zakat can eradicate poverty or not. We used poverty gap to estimate resource shortfall to poverty reduction.

Further, estimates of Potential zakat collection by classifying population into 3 categories: zakat payer, zakat receiver and neither zakat payer nor zakat receiver. For assessing people who are receiving highest 20% of total income considered as zakat payer.

Section I: Zakat as tool for Financial inclusion:

Financial inclusion and Economic Development:

Financial inclusion has become associated with progressively concern for enormous countries around the world.

Financial inclusion is the procedure of guaranteeing access of a suitable financial products and services needed by a wide range of groups such as weaker sections and low income groups at an affordable cost in a reasonable and transparent way by institutional players. (ADB instiute,2014:5) Development economists propose that the shortage of access to finance for the vulnerable groups prevents key choices regarding human and physical capital accumulation.

In associate imperfect financial market, poor people may find themselves in the “poverty trap” as they cannot save or borrow to survive. Likewise, without an anticipated future cash flow, the poor especially in developing countries are also incapable of borrowing against future income to invest in education or medical services for children. (Mahmoud Mohieldin & etal ,2012:4)

A well-developed financial sector in a country can play an important role in enhancing growth and in reducing poverty through empowering the poor to borrow in order to finance income enhancing assets including human assets such as health and education and to become micro entrepreneurs to create income and at the end come out of the poverty. (Abbas Mirakhor & Zamir Iqbal ,2012:40)

Financial inclusion from Islamic perspective:

Financial inclusion from Islamic perspective consists of 2 pillars which differentiate its path of development from conventional financial industry.

- a) Risk sharing or Assets linked financing.
- b) Redistribution Instruments.

a) Risk sharing:

One of the center economic principles of Islam is risk sharing. This is can be supported by the principle of liability, that states that profit is even on the premise of taking responsibility, possibly even becoming responsible for the loss and consequences.(Mahmoud Mohieldin & etal ,2012:6)

Since, the core of Islamic finance is risk-sharing, any interest based transaction in which a rent is collected as a percentage of an amount of the principle loaned for a specific time period without transfer of the property rights over the money loaned to the borrower. One result of this sort of dealings is the risk which is borne by the borrower. Rather, Islam principles hold out a mutual exchange in which one bundle of property rights is exchanged for another, thus allowing both parties to share the risks of the transaction.

b) Redistribution Instruments:

Islamic principles give great concern on redistribution of income and wealth. For this goal, Islam legislative instruments like Sadaqat, zakat and qard elhasan.

First redistributive instrument is zakat: the main importance of zakat is its role in handling poverty; it is seen as a method for securing more equitable distribution of income and wealth, for achieving social stability and solidarity, and enhancing the circulation of capital in the economy. (Mona Atia ,2012:2)

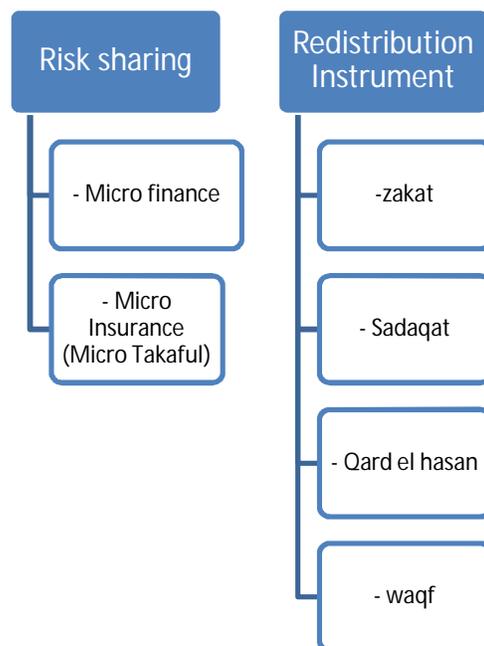
Secondly is Sadaqat: (voluntary social spending) Islamic principles indicate that poverty exists not as a result of scarcity of resources, but because they are misallocated, and mismanaged, and unevenly distributed of resources.

Muslims with the financial ability to donate more than their zakat requirements are inspired to further invest in Sadaqat. (Mahmoud Mohieldin & etal ,2012:65)

Thirdly is qard el hasan: mean beneficial loan, it is an interest free loan returned to the lender after the end of an agreed period.

Qard al Hasan is designed to meet the financing needs of the poor and is a loan that has to be repaid. The fundamental targets of Qard al Hasan is to help the needy people, to mobilize wealth among all individuals in the society and to encourage the poor to create new jobs market and business ventures by utilizing their abilities , skills and expertise.

Fig (1): Two pillars of financial inclusion



Islamic principles in development theories:

Here we correlate economic development theories with Islamic principles, as follows:

There are various theories and models in development economic literature have been proposed in explaining the multidimensional problem of poverty and underdevelopment. The most important theories are Harrod-Domar model, Rostow's Stages of Growth theory, Solow's Growth Model, Dependency theory, Lewis Two Sector Model, Neo-colonial Dependence Model, False –Paradigm Model, and Dualistic Development theories. Each of these theories has some advantages and disadvantages.

In Rostow's growth theory, we find that assumptions and definitions are inconsistent with Islamic principles because in an Islamic society, religion is the core, whereas Rostow's Growth model assumes religion to be a source of naturalness.

In Harrod-Domar and Solow's Growth model, the emphasis is on increasing savings and investments and that will lead to increased productivity, and hence higher rate of growth and to higher steady state level of output in Solow's Growth model. But, the savings are much less dependent on real interest rates in LDCs.

Structural Change Models are not in conflict with Islamic principles, but their assumptions require modification for making them effective.

Neo-colonial Dependence Model, False-Paradigm Model, and Dualistic-Development are all provide good explanations of underdevelopment, mainly of South Asian & Middle East countries. (Salman shaikh ,2012:2)

Islamic system of zakat

One of the most essential issues among economists and policy makers is the role of government in an economy. In conventional economics, the government has main sources of tax revenues: General Sales Tax, Excise Tax, Custom Duty, Import Duty, Export Duty, Property Tax, Wealth Tax, Personal Income Tax.... Etc.

In conventional economics, government can earn through non tax sources as through the profitable operations of State Owned Enterprises (SOEs) in public sector. Fines and activity based charges and duties are also an important source of revenue from the government.

In conventional economics, if a government needs to finance shortage, it can issue Treasury Bills/Bonds or to obtain loans bilaterally or multilaterally.

In Islamic economy, Zakat is a sum of a net worth and a production tax. It also considered being a religious commitment to pay a specific percentage of wealth and production to the government. Although, in most Islamic countries zakat is not collected or distributed by the government & is not viewed a compulsory payment. (Salman Shaikh ,2010:73)

How zakat is different with taxes

There are 2 different opinions about whether the government should collect taxes from people from Islamic perspective.

First point of view of the tax policy: this perspective permits the presence of tax policy. The economists and policy makers who argues that tax is allowed to satisfy the needs of countries for different needs such as reducing poverty. Which if not achieved from zakat, sadaqah and then permitted to search for new an alternative source that is taxes.

Second point of view of the tax policy: the economists and policy who argue the econd point of view indicate that the tax is forbidden in Islam. This is because in the history of Islam was never to tax to the Muslims, Muslims only have a commitment to pay zakat.

The main differences between taxes and zakat:

1) Zakat is identified to religion while taxes determined by government and decision makers. Also, Zakat is an obligatory payment levied only on the Muslim members of the society.

- 2) The method of calculating Al zakat is fixed and applied long time ago, and hasn't changed in terms of its conditions and rules, likewise zakat is not subject to government's estimations of its own needs in order to spend on the public projects and services like in taxes.
- 3) Unlike taxes there is no duplication in the zakat, as its legislation is avoiding the duplication in the payment of Al Zakat. It is not permitted to take Al Zakat more than one time per year. As, it is not allowed to impose zakat on the same money at the same year. On the other hand, in most of current tax systems there are various forms of tax duplication. (Hosam Elsayed ,2012:13)

The Role of Zakat in financial inclusion:

Zakat has different economic impacts such as; it influenced the income level of poor people, it increases the consumption level in the national income and level of production level in the economy.

Zakat can play a vital role in alleviate poverty and accrue justice in the distribution of income and wealth.

Islam had determined the eight groups to whom zakat funds should accrue, and 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 production in the next stage which increases income.

Depending on income, a new stage of improving demand and employment, the production and income starts and so on. Due to spending multiplier in the community, income will be multiplied accordingly, and the national economy will be revived. (Hisham Abdelbaki ,2012:148)

Zakat & poverty:

There are many different policies applied by countries to eliminate poverty, such as; a package of price policies, income and wage policies, and labor market and production policies. These strategies are focusing on increase of government spending to support the poor, also increase transfer payments, and follow the policies of price discriminations in the health sector and increase public investment to enhance the economic growth especially in rural areas. (Hisham Abdelbaki ,2014:1314) These strategies are suffered by a various problems and conflicts with each other.

Zakat contributes in finding solutions for societies and resolve the previous mentioned problems like poverty, income inequality and unemployment. Zakat is given to the needy to increase their level of income, so increase their chances to invest and grow their wealth through using their potentials and creating new job opportunities. (A. Sadeq ,1989:50)

The aim of zakat is to eradicate poverty and hunger by guaranteeing the provision of basic necessities of life.

Zakat & Distribution of income:

The main objective of zakat is to redistribute wealth of the society among the poor. Zakat can play an essential role in development through redistribution of income and wealth for the benefit of poorest. (Hisham Abdelbaki ,2013:147)

Zakat improves the volume of production. When collected and distributed among the needy people, it also spent on various consumer goods which is likely to increase the demand of different products of industries which enhance production of goods. (Mohamed Youssef ,2011:5)

Zakat & consumption:

One of the main effects of zakat payment at the macro level is increasing the purchasing power of zakat recipients through zakat distribution.

Theoretically, the marginal propensity to consume (MPC) of the poor is greater than the marginal propensity to consume (MPC) of the rich. This means; if the poor receives this extra financial aid, a big part or even all of it can be used for consumption. (Eko Suprayinto & etal, 2013:41)

Consumption function before zakat

$$C = a + c Y_d$$

Y_d : disposable income c : Marginal propensity to consume

Consumption function after zakat

C_1 marginal propensity to consume for rich (muzzakki)

C_2 marginal propensity to consume for poor

$$C = a + c_1 Y_{1d} + c_2 Y_{2d}$$

$$Y_{1d} = nY - Z_y - t_y \quad (\text{Rich})$$

$$Y_{2d} = (1-n) Y + z_y \quad (\text{poor})$$

$$C = a + c_1 (ny - zy - ty) + c_2 ((1-n)y + zy)$$

$$C = a + c_1 ny - c_1 zy - c_1 ty + c_2 y - c_2 ny + c_2 zy$$

Section two: The role of zakat to reduce poverty in Malaysia & Indonesia:**Financial inclusion in Malaysia:****Table (1): Key aspects of financial inclusion in Malaysia**

indicator	Account at a formal institution % (age 15+)	Loans from a financial institution in the past year	Debit card % (age 15+)
	66.2	11.2	23.1

Source: World Bank (2014), Global financial Development Report 2014, financial inclusion.

According to financial inclusion indicators, Malaysia generally performs well in most financial inclusion indicators. About 70% of its adult population having bank accounts, Malaysia presents one of the highest levels of bank penetration in the East Asia and Pacific region compared to many high income economies.

Likewise, SME financing has reached a lending value with respect to GDP comparable to various number of high income economies and consumer loans are spread. (World bank & IMF, 2013:4)

Poverty Profile in Malaysia:**Table (2): poverty in Malaysia. Poverty incidence as % of population**

Year	Rural	Urban	total
1970	58.7	21.3	49.3
2007	7.1	2.0	3.6
2009	8.4	1.7	3.8
2012	1.0	3.4	1.7

Source: Economic planning unit, Malaysia www.egpu.my

Overall poverty incidence declined from 49.3% in 1970 to 1.7% in 2012; urban poverty declined from 21.3% in 1970 to 1.1% in 2012 while rural poverty decreased from 58.7% in 1970 to 3.4% in 2012. (Datuk Rahamat ,2013:4)

For income inequality, the ratio of income distribution of the top 10% to the bottom 40% in 2012 is about 2.16 times.

The national distribution of income indicates a steady decline in inequality; the Gini coefficient dropped by about 16% from 0.51 in 1970 to 0.43 in 2012. (UNDP, 2013:47)

Zakat in Malaysia:

Table (3) Zakat collection in Malaysia (RM million)

year	Zakat collection	% Of GDP
2002	331.47	0.08%
2005	573	0.11%
2008	1,038	0.14%
2009	1,196.9	0.18%
2010	1,341.4	0.19%
2011	1,641.1	0.20%

Source: IRTI , Islamic social finance Report 2014

Zakat fund were constantly not fully distributed. For the period of 2003- 2010, zakat institutions on average distributed 77% of their zakat fund i.e 23% of zakat fund were not distributed.

Fig (2): zakat fund distribution in Malaysia (2003-2010)

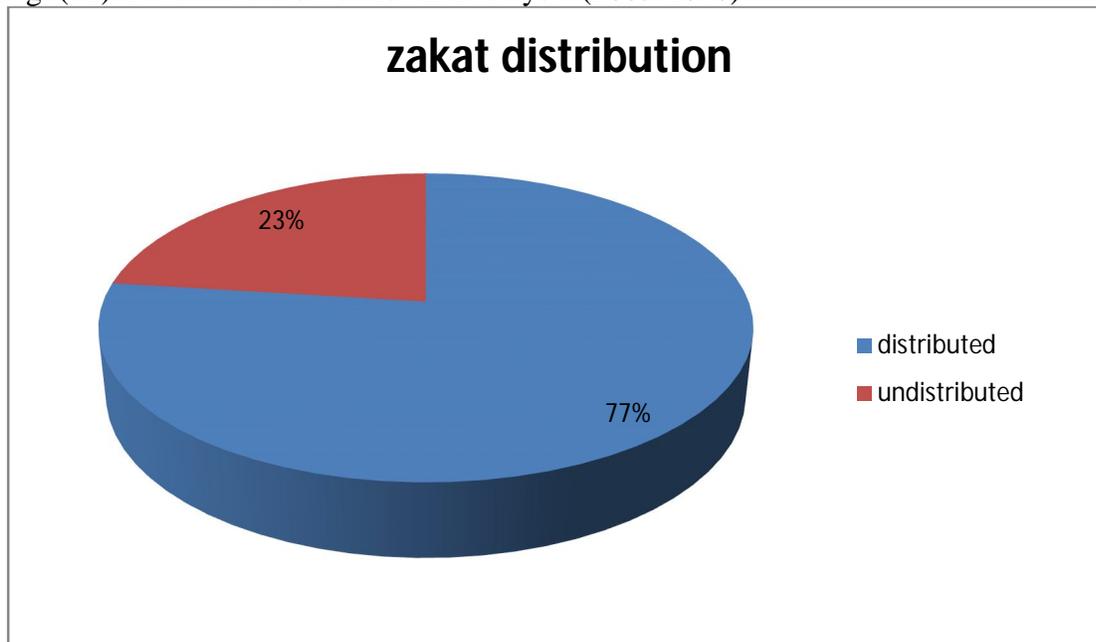


Table (4): Percentage of zakat distribution:

year	Zakat distribution (Million RM)	% of fund distribution
2003	349.5	85.6
2004	353.1	74.6
2005	424.2	74.0
2006	498	74.3
2007	626	77.6
2008	749.4	72.2
2009	1,020.8	85.3
2010	1,176.5	86.3

Source: IRIT (2014), Islamic social finance Report, p.44

The role of zakat to reduce poverty in Malaysia:

Malaysia is one of the successful and excellent countries in managing and overseeing collecting and distributing zakat compared to other Islamic countries.

There is no obligatory zakat law in Malaysia, however the collection and distributing system that is presence is efficient. (Isahaque Ali & Zulkarnian hatta ,2014:66)

In Malaysia there are 14 zakat institutions under the religious department of various states.

(Patmawati, 2006) study examines the role of zakat in reducing income inequalities and poverty in the state Selangor, Malaysia. Employing purposive sampling method and the Lorenz curve and Gini coefficient, the study found that zakat distribution has positive contribution in reducing income inequality, whereby the bottom 10% of population receiving almost 10% of the total income and the top 10% of the population income portion reduced to 32%.

Before zakat is distributed, the bottom 10% of the population enjoys only 0.4% while the top 10% of the population enjoy 35.97%. Lorenz curve shows that with zakat distribution, it moves closer to the perfect equality line as compared to pre zakat Lorenz curve. Gini coefficient depicts that zakat distribution has reduced income inequality in Selangor which is indicated by the declining value of Gini coefficient from 0.52 to 0.47.

The potential of zakat in poverty Alleviation in Malaysia:

To assess potential zakat in alleviating poverty, we need quantify in terms of the number of the poor in the economy.

Table (5) poverty indicators in Malaysia

year	GDP (PPP) Millions	Total population	Population below 1.25\$ a day %	Poverty gap at 1.25\$ a day %	Population below 2\$ a day %	Poverty gap at 2\$ %
2009	383000	25715820	1.9	0.4	2.3	0.4

Source: Nasim Shah (2014), Integrating zakat and waqf into the poverty reduction strategy of the IDB member, Islamic Economic Studies, vol 22, No.1

Subsequently, we need to calculate the funds required to uplift the poor out of poverty.

Table (6): Resource shortfall for poverty elimination in Malaysia

year	Resource shortfall under 1.25 (Million)	Resource shortfall under 2\$ (Million)	Resource shortfall under 1.25 % of GDP	Resource shortfall under 2\$ as % of GDP
2009	46.93	75.09	0.012	0.020

Source: Nasim Shirazi (2014), Integrating zakat and waqf into the poverty reduction strategy of the IDB member, Islamic Economic Studies, vol 22, No.1

The table above estimate the minimum amount needed to bring the poor above the poverty line.

Then, we would calculate the potential amount zakat that can be collected in the economy.

Kahf (1989) estimated zakat potential for Muslim countries by using National income accounts. His estimates of potential zakat were based on three different opinions of jurists regarding zakatable items. Those three definitions ere nanmed z1, z2, z3

Table (7) Potential zakat collection in Malaysia

year	Z1 (%of GDP)	Z2 (% of GDP)	Z3 (% of GDP)	Z1 (Million \$)	Z2 (Million \$)	Z3 (Million \$)
2009	1.09	2.33	2.62	3010.88	6439.94	7259.57

Source: Nasim Shirazi (2014), Integrating zakat and waqf into the poverty reduction strategy of the IDB member, Islamic Economic Studies, vol 22, No.1

Resources shortfall under 1.25\$ a day and 2\$ a day on average is 0.012 and 0.020 percent of the GDP. The corresponding amount, which can be collected under z1, z2 and z3 estimated to be 1.09 percent, 2.33 percent and 3.68 percent of their total GDP. i.e, potential zakat collection is enough for fulfilling resource shortfall.

So, if Malaysia collect zakat to its potential and directed it to the target group can eliminate poverty.

Financial inclusion in Indonesia:

Table (8) : Key aspects of financial inclusion in Indonesia, 2011

indicator	Account at a formal financial institution % (age 15+)	Loans from a financial institution in the past year % (age 15+)	Debit card % (age15+)
	19.6	8.5	10.5

Source: world bank (2014), Global financial development Report 2014, financial inclusion.

According to financial inclusion indicators the access to financial institution in Indonesia is still very low as only 20% of adult population has bank account and around 48% of household that has saving account at Bank, financial institution and non-financial institution.

The strategy of financial inclusion in Indonesia is built to enhance three components: Economic growth (enhance local economic development), reduce poverty (focused on poor people) and financial stability (Robust and proper regulation & customer protection) (Bank Research and regulation department ,2014:9)

Poverty profile in Indonesia:**Table (9): poverty in Indonesia**

year	No of poor people (million)			Percentage of poor people		
	Urban	Rural	Total	Urban	Rural	Total
2008	12.77	22.19	34.96	11.65	18.93	15.42
2009	11.91	20.62	32.53	10.72	17.53	14.15
2010	11.01	19.93	31.02	9.87	16.56	13.33
2011	10.95	18.94	29.89	9.09	15.59	12.36
2012	10.51	18.08	28.59	8.60	14.70	11.66

Source: Infan Beik & Laily Arsyiant (2013), optimization of zakat instrument in Indonesia's poverty alleviation programme, p.1

The number of poor in 2012 is around 12% of population or about 30 million people.

Inequality has been increasing with the Gini coefficient moving from 0.33 in 1990 to 0.41 in 2012. The income share of the wealthier 20% of households reached 49.5% in 2012.

Zakat in Indonesia:

Local legislative in Indonesia have resulted in Zakat act no. 38/1999, which was then modified to zakat act no. 23/2011. This new act commanded a stronger reconciliation of zakat management in the country. This act indicated that the zakat institutions are divided to two categories (i) government board of zakat and (ii) private zakat institutions. (Irfan beik & laily Arsyianti 2014:2)

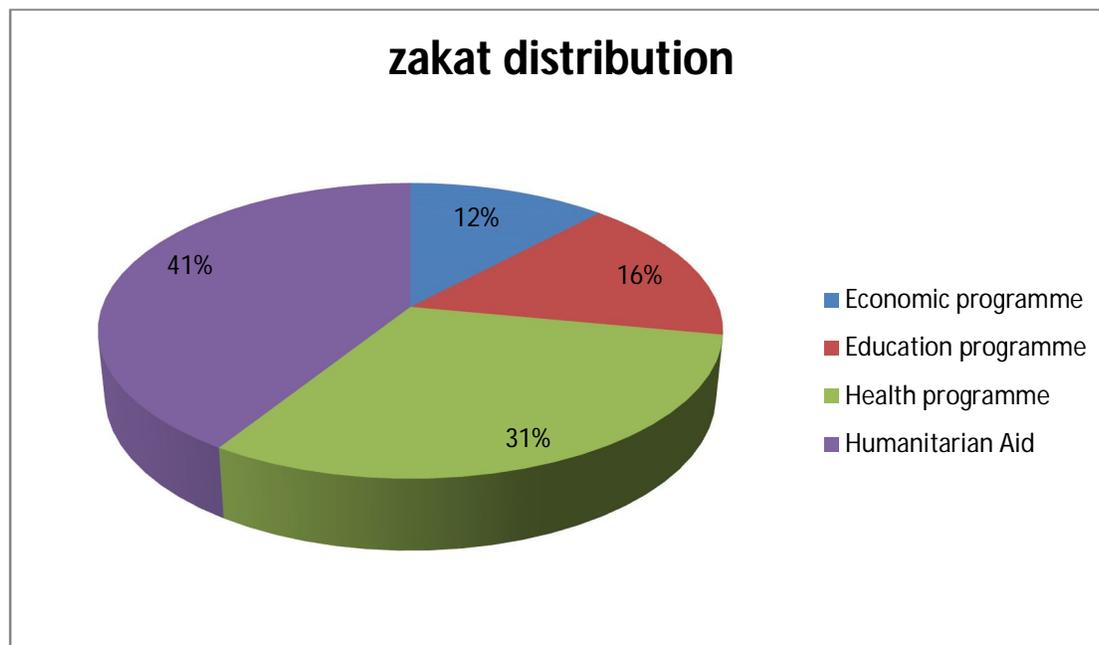
Table (10) National Zakat collection in Indonesia

year	Total amount of zakat (billion Rupiah)	Total amount of zakat (million \$)	Annual Growth %
2002	68	7.2	-
2008	920	96.8	24.32
2009	1200	126.3	30.43
2010	1500	157.9	25.00
2011	1729	182	15.25
2012	2200	231.6	27.25

Source: National Board of Zakat, 2013

Information from the National Board of Zakat of Indonesia (BAZNAS) has recorded that national zakat collection in 2012 reached Rp 2.2 trillion (USD 207 million). This sum combines total collected zakat from both the government board of zakat and private zakat institutions. This amount represents a 27.24 percent increase compared to the previous year and 31 times greater than 2002. Accordingly, the figure indicates that there is a significant increase in terms of zakat collection in Indonesia.

Fig (3): pattern of zakat distribution in Indonesia



Source: IRIT (2014), Islamic social finance Report, p.44

It appears that economic empowerment programs still account for a small percentage of the zakat collected in Indonesia.

The role of zakat to reduce poverty in Indonesia:

(Beik, 2011) study was based on field surveys in which 879 households were selected. He found that the presence of zakat programmes was able to lower the number of incidence of poverty by 10.79 percent. The study indicates that in terms of depth of poverty the poverty gap ratio will reduce by 4.69 percent.

(Mintarti et al ,2012) study indicates that zakat programmes conducted by various institutions in the country have a positive impact on the reduction of poverty. The number of the mustahik that move away from poverty line reached 21.11 percent. The presence of zakat programmes was able to reduce the depth of poverty, as indicated by reduction of 2.34 percent in the poverty gap ratio and 4.84 percent in the income gap ratio.

The potential of zakat in poverty alleviation:

Table (11) poverty indicators in Indonesia

year	GDP (PPP) Millions	Total population	Population below 1.25\$ a day (%)	Poverty gap at 1.25\$ a day (%)	Population below 2\$ a day (%)	Poverty gap at 2\$
2009	960200	240271500	18.7	3.6	50.7	15.5

Source: Nasim Shah (2014), Integrating zakat and waqf into the poverty reduction strategy of the IDB member, Islamic Economic Studies, vol 22, No.1

Table (12) Resources shortfall for poverty elimination in Indonesia

year	Resources shortfall under 1.25\$ (Million)	Resource shortfall under 2\$ (Million)	Resources shortfall under 1.25\$ (% of GDP)	Resources shortfall under 2\$ (% of GDP)
2009	3946.46	27186.72	0.411	2.831

Source: Nasim Shah (2014), Integrating zakat and waqf into the poverty reduction strategy of the IDB member, Islamic Economic Studies, vol 22, No.1

The poverty performance in Indonesia is dissimilar to Malaysia as it reveals a different thing. According to the table, zakat will be effective as an alternative to eradicate poverty if the zakat collected was equal with 3 percent of GDP.

Table (13): National zakat potential

variable	Zakat potential (trillion Rupiah)	Percentage of GDP
Individual zakat potential	82.7	1.30
Zakat of industry consist of		
- Corporate zakat	114.89	
- Zakat of state own companies	2.4	
total	117.29	1.84
Zakat potential of outstanding private deposits in commercial and rural banks and deposits in Islamic banks	17.01	0.26
Total	217 22.41\$ billion	3.40

Source: Firdaus & etal (2012), Economic estimation& Determinations of zakat potential in Indonesia, IRT working paper # 1433-07

As the table above shows, corporate zakat occupies the largest portion of national zakat potential (1.84 percent of GDP) i.e 12.11 \$billion As for individual zakat potential, its value 8.54 billion \$. In general, the zakat potential of Indonesia is still within the range of zakat potential that has been observed by (Kahf, 1989), Kahf states that the potential of zakat in Islamic countries was around 1.8- 4.34 percent of total GDP.

Section three: Zakat in Egypt and its role in poverty reduction:
Financial inclusion in Egypt:

Table (14): key aspects of financial inclusion in Egypt, 2011

indicator	Account at a formal financial institution % (age 15+)	Loans from a financial institution in the past year % (age 15+)	Debit card (% age 15+)
	9.7	3.7	5.1

Source: world Bank (2014), Global financial Development Report 2014, financial inclusion. According to financial inclusion indicators, Egypt has one of the lowest levels of financial inclusion in the Middle East and North Africa (MENA) region. Only 10 percent of Egyptian adults have access to formal financial services and less than 4 percent of Egyptian adults took a loan from a financial institution in the past year. Looking to this figures we found that on average 24 percent of adults in lower income countries have accounts at formal financial institutions.

Poverty and inequality in Egypt:

Table (15): Poverty rates according to national poverty line

year	2008/2009	2010/2011	2012/2013
Urban Governorates	6.9	9.6	15.7
Lower Egypt			
Urban	7.3	10.3	11.7
Rural	16.7	17.0	17.4
Upper Egypt			
Urban	21.3	29.5	26.7
Rural	43.7	51.4	49.4
Frontier Governorates			
Urban	4.8	3.6	11.3
Rural	23.2	33.3	46.6
Total	21.6	25.2	26.3

Source: CAMPAS (2013), poverty Data from the household Income, Expenditure and consumption survey 2012/2013

The poverty rate in Egypt increased from 16.7 percent (around 9.9 million people) in 1996 to 21.6 percent in 2009 and reached 26.3 percent in 2013 (around 22 million people)

Furthermore, disparities existed among governorates. In 2012/2013, upper Rural recorded a poverty rate of 49.4%, Upper Urban 26.7%, boundary governorates 24.2%, Lower rural 17.4%, lower urban 11.7% and urban governorates 15.7%.

Table (16): Inequality, Gini coefficient 2004/2005- 2012/2013

year	2004/2005	2008/2009	2010/2011	2012/2013
Total	0.33	0.31	0.31	0.30
Urban	0.35	0.34	0.34	0.33
Rural	0.22	0.22	0.24	0.24

Source: CAMPAS, Data from the household Income , Expenditure and consumption survey 2012/2013.

However the value of the Gini coefficient was estimated at 31 in 2008/2009 down from 33 in 2004/2005 and declined to 30 in 2012/2013 which indicating an improvement in income equality.

Table (17): Consumption distribution across quintiles 2010/2011- 2012/2013

	2010/2011	2012/2013
First quintile (poorest 20% of the population)	9.5	9.6
Second quintile	13.3	13.3
Third quintile	16.6	16.5
Fourth quintile	21.3	21.0
Fifth quintile (richest 20%	39.3	39.6

Source: CAPMAS (2013), Data from the Household Income , Expenditure and consumption survey 2012/2013

The household survey of income, expenditure and consumption 2012/2013 shows that the bottom 40% of the population accounted for only 6.6% of total expenditure in urban areas and 7.8% in rural areas in 2012/2013. (CAPMAS ,2013)

The current situation of Zakat in Egypt:

The zakat in Egypt is a private issue as it is not collected by the government or any central organization and no specific law regulate zakat issue; people have the choice if and to whom to assign their zakat. Numerous people give secretly and to extended relatives or neighbors. (Hosam Elsayed ,2012:25)

The whole number of associations working in zakat in Egypt is not specified. As there are ten major essential associations working in zakat in Egypt, but the number of small associations is unknown. (Mona Atia, 2012: 2)

The system of zakat in Egypt comprises of four major components: voluntary committees unaffiliated with any public body, the ministry of awqaf and its affiliated voluntary committees, the Nasir social bank and its voluntary committees.

So, zakat is paid in a voluntary manner to these associations and is distributed to needy people and families as indicated by the full discretion and decision making of volunteers. (Islamic Research and training institute (IRTI) ,2000:36),

Faisal Islamic Bank of Egypt:

Faisal Islamic bank of Egypt has total assets 5087 million \$ and its rank is the 43rd among the top Islamic banks in the world, but it remains a relatively small institution if it is compared to National Bank of Egypt which has total assets of 46380 million \$.

Table (18) the expenditures of zakat from the Egyptian Islamic faisal bank 2011

Expenditures	Amounts in thousands of LE
individuals	11657
students	237
Mosques	82
Medical and social organizations	2559
The transferred to the account of the charity investment	157
Administrative expenses	100
Education classes	1323
Total	11

Source: the Egyptian Islamic faisal bank, 2011

The problems of applying zakat in Egypt:

- There is no coordination between the different associations working on zakat in Egypt.
- There are a lot of social associations that are paying subsidies beside zakat to poor people so it is very difficult to give accurate statistics whether these subsidies were collected and distributed by standards to zakat rules or as a sort of social subsidies. (Hosam Elsayed ,2012:29)

Some Islamic countries like Sudan, Saudia Arabia, Malaysia , Indonesia and a other Islamic countries have organizations for zakat, sometimes with taxes like Sudan and Saudia Arabia and sometimes as a separate organization like Malaysia.

In case of Egypt, it is highly important to have such an organization to overcome a lot of problems such as lack of cooperation and coordination between the parties working in the field of zakat.

Resources shortfall for poverty Reduction in Egypt:

Table (19): Resources shortfall for poverty Reduction in Egypt

year	No of pop	GDP (PPP) Billio n \$	Pop below 1.25\$ (%)	Pop below 2\$ (%)	Poverty gap at 1.25\$ (%)	Poverty gap at 2\$ (%)	Resources shortfall under 2\$ million \$	Resources shortfall under 2\$ as % of GDP
2000	66,136,590	247	1.8	19.4	3.5	0.3	1689.79	0.68
2005	71,777,678	304.3	2.3	20.1	3.8	0.4	1991.113	0.65
2008	75,491,922	443.7	1.7	15.4	2.8	0.4	1543.055	0.35

The resource shortfall for poverty reduction under 2\$ is estimated to be 1689.79 million \$ in 2000, 1991.113 million \$ in 2005 and 1543.055 million \$ in 2008.

Column 9 of the table (18) presents the resource shortfall under 2\$ per day. The resource shortfall as a percentage of GDP is estimated to be 0.68 in 2000, 0.65 in 2005 and 0.35 in 2008. i.e resource shortfall is less than one percent of GDP.

Potential zakat collection:

Table (20): potential zakat collection

year	Income share held by highest 20%	GDP Billion	Potential zakat collection billion \$	Potential zakat collection as % of GDP
2000	42.10	247	2.6	1.053
2005	41.46	304.3	3.15	1.04
2008	40.34	443.7	4.47	1.007

The populations are classified into 3 groups: Zakat payer, zakat receiver and neither zakat payer nor zakat receiver.

For estimation, people receiving highest 20% of total income considered as zakat payer.

The potential zakat collection estimated to be 2.6\$ billion in 2000, 3.15 \$ billion in 2005 and 4.47\$ billion in 2008. The potential zakat as percentage of GDP estimated to be 1.035% in 2000, 1.04% in 2005 and 1.007% in 2008.

So, according to these estimates we found that potential zakat collection can fill the resources gap for the poverty alleviation.

This result is similar to (Shirazi, 2014) study which finds that potential zakat collection enough for poverty alleviation in Egypt. As potential zakat collection as % of GDP are 1.579, 3.377 and 3.806 according to the three definitions of zakatable items z1 , z2 and z3 respectively.

While resources shortfall under 2\$ /day as % of GDP is 0.590. So, potential zakat collection under the three definitions of zakatable items (z1, z2 and z3) are enough to cover the resource shortfall and thereby enough to eradicate poverty in Egypt.

But opposite to (Hisham Abdelbaki, 2014) study, which concluded that potential zakat collection in Egypt cannot eradicate poverty from the Egyptian Economy. As zakat potential contributes by 0.223\$, 0.196\$ and 0.387 per day in years 2000, 2005 and 2008 respectively and this is not due to transfer the poor to be non poor. The study recommends the need to voluntary charities as complementary tools in poverty eradication in Egypt.

Conclusion:

The paper investigated the impact of zakat on financial inclusion in Egypt by estimate the resource gap for poverty reduction and the potential zakat collection in Egypt.

The results shows that the resource shortfall for poverty reduction under 2\$ is estimated to be 1689.7\$ million, 1991.113\$ million and 1543.05\$ million in years 2000, 2005 and 2008 respectively. The resource shortfall as a percentage of GDP is estimated to be 0.68, 0.65 and 0.35 in years 2000, 2005 and 2008.

The potential zakat collection estimated to be 2.6\$ billion, 3.15 \$ billion and 4.47\$ billion in years 2000, 2005 and 2008 respectively. The potential zakat as percentage of GDP estimated to be 1.035%, 1.04% and 1.007% in years 2000, 2005 and 2008.

So, the potential zakat collection can fill the resource gap for the poverty alleviation in Egypt. But Egypt need to establish an organization or institution to overcome a lot of problems facing applying zakat like random collection and distribution of zakat in Egypt and lack of coordination between the parties working in the field of zakat in Egypt.

Recommendation:

- 1) Zakat can play an essential role in financial inclusion by enhancing access to finance. So it is important to integrate zakat associations with the economic and financial system.
- 2) There is a need for government intervention to regulate the process of collecting and distributing zakat. to reach equitable distribution of income and wealth.

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