Effect of Charity on Poverty Reduction in District Malakand

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ABSTRACT

This paper aims to empirically investigate the effectiveness of charity as a tool of poverty reduction among poor households in District Malakand. To achieve the above objective, the data was obtained from 181 poor households of district Malakand with a well-structured interview schedule. The impact of charity on poverty is achieved in the context of the burden of poverty, specifically in terms of poverty incidence, poverty deepness and poverty severity. The above objective is fulfilled with the help of different poverty indices i-e Headcount index (HI), Poverty gap ratio (PGR), Mean income gap (MIG), and Sen Index (SI). The study also attempts to find the impact of charity on income inequality by applying Gini Coefficient and Lorenz Curve. Results of the study show that charity distribution has a positive effect on the incidence of poverty, the extent of poverty and the severity of poverty. It means that with charity the income of the poor people increases. The results from Gini Coefficient and Lorenz curve also suggest perfect income equality of charity distribution among poor households in District Malakand.

INTRODUCTION

Poverty is a confusing and complicated term. It is a difficult situation with economic, cultural, social and Institutional roots. It means a scarcity of well and lengthy life, economic resources, and knowledge and community participation. It may persist both in developing as well as in developed countries but is a key concern with these countries to eradicate it from their territories. Rural and Urban areas, both are facing the problem of poverty but its effect is more severe in rural areas because of the lack of various resources like job opportunities, education quality, health facilities, transport and communication facilities. Governments and various international institutions are trying their best to eradicate poverty from their territory as well as generally from the entire world. For this, they adopt various strategies to handle poverty, but no nation in the world is able to eradicate it completely from their territory.

One of the essential instruments to eradicate poverty in Islam is Islamic charity because it is one of the

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essential orders of Islam. It is the transfer of wealth to the poor from the rich. Being an Islamic nation, it can be used as an instrument to eradicate poverty in Pakistan.

Charity is a very wide concept in Islam because it includes both financial and non-financial charity. The financial charity also includes Zakat and Sadaqaat. Zakat in Islam is one of the five pillars and it is a part of the Muslim character. Zakat is a compulsory charity and is required by every financially stable rich Muslim once a year to support the poor and needy people. Allah has mentioned eight groups of people as worthy zakat recipients in the Holy Quran. "As-Sadaqaat (Zakat) are only for the *Fuqaraa* (poor), *Al-Masaakeen* (the needy), *Amileen* (those employed to collect the zakat fund), *Muallaf-al-Qulub* (to attract the hearts of those who have been inclined towards Islam), *al-Riqab* (to free the slaves), *al-Gharimin* (for those in debt), *Fisabilillah* (for the cause of Allah) and *IbnuSabil* (for a traveller who is cut off from everything), a duty imposed by Allah and Allah is All-Knower, All-Wise" (Al-Tawbah9:60). These groups of people are the most deserving categories of society and they are always facing many problems in their consumption, because they have a very low or zero earning capacity. Zakat play a vital role in Islamic state at various dimensions. It is compulsory upon Muslims to give a specific amount of their income to the poor's people, in order to achieve the goal of socio-economic justice among different people of the societies (M. Ridhwan, 2014). Similarly, in Islamic social welfare system, zakat plays an important role to eradicate poverty from Muslim countries (FuadahJohari, 2014; Ahmad Fahme, 2013). Thus, it is considered as strong instrument to bridge the difference between the poor and rich of the Muslims societies and hence it can play an important role in socio-economic development of Muslims societies, if it is implemented properly. Similarly, the term Sadaqaat has a broader concept used in Islam for giving charities to others. Sadaqaat has also divided into two categories called Sadaqah Wajibah and Sadaqah Naflia. Sadaqah Wajibah is also similar to zakat in nature and it must be also spent on the same eight categories defined Allah in the Holy Quran. Sadaqah al-Fitr, Kaffarah, Fidyah, and Udhiyyah, are the various type of Sadaqah Wajibah. The charity which is optional, not compulsory in nature and also does not require the eight specific categories of recipient people is called Sadaqah Naflia. Hibah (Atiyah), Lillah, Sadaqah for the expiration of sins and for the upliftment of difficulties are various type of Sadqanaflia.

As Islam has stressed on the strict compliance of zakat, it must have financial reasons. It is expected that zakat is a good tool of wealth redistribution and enhancing spending capacity of the poor. This research, is however, purely targeted at researching the economic effects of zakat.

LITERATURE REVIEW

We find that zakat is a well-researched topic in the literature studies examining various dimensions of obligatory charity at micro level in Pakistan and across different Islamic countries. For example, Shirazi (1995) explores the role of infaq fund in the reduction of poverty from urban and rural areas of Pakistan. The finding of the study suggests positive and significant role of infaq fund in the reduction of poverty. Similarly, Arif (2007) explores the efficiency of different nationally implemented poverty alleviation

program in Pakistan that is zakat, micro finance schemes and health services in the form of lady health worker program. The finding of the study suggests that almost all these strategies fail to achieve their financial goals. Ali, *et. al.,* (2013) also examines the efficiency of monthly zakat distribution for poverty reduction, in the state of Kelantan and finds a positive and significant impact of zakat distribution on poverty reduction of these poor's households. Furthermore, Abdullah, *et. Al.,* (2013) examined the effect of zakat distribution on monthly income of zakat recipients. Their finding suggests a positive relationship between zakat and monthly income of zakat recipients after zakat distribution. Similarly, Zeb and Zaman (2014) explore the role of zakat distribution in terms of social safety net in Pakistan. They conclude that zakat as a social safety net fails to improve the economic condition and poverty reduction of zakat recipients. Johari, *et. al.,* (2015) examined the efficiency of monthly zakat distribution for poverty reduction in new converts (maullaf) in the state of Selangor, Malaysia. Their findings suggest a positive role of zakat distribution on poverty elimination in terms of poverty incidence, severity and intensity and also in reducing the income inequality. Sari *et. al.,* (2019) investigated the impact of zakat collection on poverty reduction in west Sumatra (Indonesia). The study used various poverty indexes for poverty measurement. The results of the study suggest that zakat distribution play a vital role in poverty reduction in west Sumatra. Bouanani and Belhadj (2019) examine the impact of zakat on poverty reduction in Tunisia by using the fuzzy approach. The study used the household survey data conducted by the Tunisian National institute of statistics (TNIS) in 2010, involving 11,281 households. The study used fuzzy poverty measurement which indicates that zakat has reduced the poverty in Tunisia. Nurjanah et al., (2019) explores the impact of economic growth and distribution of zakat fund in the alleviation of poverty in the province west java (Indonesia). The study used the secondary data from 2011-2016. For the analysis the study used panel data regression. Their results suggest that economic growth and zakat fund distribution simultaneously have a significant effect on reducing the number of poor people. Rini et al., (2020) explores the collection and distribution of zakat on poverty alleviation in Indonesia. The study used the linear regression equations for the testing of hypothesis. The results suggest that there is an effect of zakat distribution on poverty alleviation in Indonesia. However, all these studies ignore the role of other charity in reducing poverty? Therefore, the current study aims to examine the role of overall charity including both zakat and Sadaqat in eradicating of poverty.

Theoretical Framework

One of the essential tools to cope with the problem of poverty is Islamic charity. Because with charity the income of the poor household will increase, this will increase the consumption of these households. The increase in consumption means that the demand for goods and services of the poor households has increase (Johor, *et. al.,* 2014). Which means more and more goods will be required to fulfil the increase in consumption. So, with the increase in demand the production capacity would gradually increases and would begin to absorb the idle capital. To support the increase in output the economy would generate more

employment opportunities. The increase in employment would tend to increase the income of the poor's and as a result demand for goods and services will further increases and hence, will shift the demand cure upward. Finally, Due to multiplier effect, the growth cycle based on balance consumption would contribute to a balance economic growth (Patmawati, 2006). All these will ultimately result of low poverty in any economy of the world.

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┌──────────────┐                              ┌──────────────┐
│              │                              │  Poverty     │
│   Charity    │  ─────────────────────────▶  │  Reduction   │
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└──────────────┘                              └──────────────┘
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Figure 1: Theoretical Framework

RESEARCH METHODOLOGY

Sample

District Malakand has been selected as the study zone to provide the primary data. The reason behind the selection of this area is that it is a less developed district in Khyber Pakhtunkhwa province of Pakistan. Majority of population are consisting of rural households and as results the chance of earning is less because of lack of essential resources. The government is trying their best to eradicate the poverty from this region by injecting a huge amount of charity to the needy ones. Fiscal statistics shows that an amount equal to Rs 56 lacs were distributed among the poor by local zakat committee in 2020 in district Malakand. Similarly, Benazir income support program (BISP) distributed an amount of Rs five core in district Malakand among the poor and needy household. Besides these, private sector is also taking a keen interest to eradicate poverty from District Malakand. For example, Sabawon a charity aid organization distribute an amount of Rs 4.4 million rupees among the poor's especially orphans. Besides this the poor households are also receiving a huge amount of charity in the form of zakat /User, Fitrana Odheya etc. from their relatives, friends and neighbours etc.

Data Collection

The data is obtained with help of an interview schedule. The unit of observation is the poor household. To define a poor household, we have used a $ 1.9 poverty line. A household may be consisting of a single person or a group of people. The data is obtained from the household head by direct interview. But in some special cases, when the household head was unavailable, the data was obtained from other responsible family member. The data were obtained from 181 poor household by conducting direct interview of these households, in which 162 were male household head, and 19 were female household head. Among these households 128 household were taken from rural area and the rest of 53 were consist of urban households.

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For the incidence of poverty, the study applies the headcount index (HI) which shows the percentage of poor households within the total households.

Mathematically,

$$P_0 = \frac{1}{N} \sum_{i=1}^{N} I(\ yi < z\ ) = \frac{N_P}{N} \tag{1}$$

Where N show the total number of populations.

I (.) shows the number of poor households within the total number of populations that is, if I (.) take a value of 0 (non-poor), if I (.) take a value of 1 (poor), if the bracket term is true.

y_i= expenditure and "**z"** is the poverty line.

For measuring extent or deepness of poverty the poverty gap ratio (I) and mean income gap (P1) is used.

Mathematically

$$I = \frac{1}{N} \sum_{i=1}^{q} (z - yi/zi\ )$$

$$P1 = \frac{1}{N} \sum_{i=1}^{N} (Gi/Zi\ )$$

$G_i = (z - y_i).\ I\ (y_i < z)$

where "**N"** is the total number of population, "**I=1 to N"** is the total number of poor household within the total number of population., "**z"** is the $ 1.9 poverty line,"**q"** is the total population of poor who is living at or below the poverty line and **"yi"** is the income of the poor household.

For the measurement of poverty severity, the Sen's index is used. Formally as,

$$P_s = P_0 \left(1 - (1 - G^P)\frac{\mu^P}{Z} \right)$$

Where

P_0 = Head count index (H)

μ^P = Mean income (or expenditure) of the poor household.

G^P = Gini coefficient of inequality of income in the poor household. It has ranges from 0 (perfect equality) to 1 (perfect inequality).

We can also write these Index as the mean of the head count index and poverty gap ratio that is.

$$P_s = P_0 G^P + P_1(1 - G^P)$$

FollowingKakwani (1986), Patmawati (2006) and Fuadah (2014), the study analyzed the household income data before the distribution of charity for knowing about the incidence, extent and severity of poverty. The same process was revised with the introduction of charity. After that both the results were compared for knowing the impact of charity on poverty incidence, severity and extent of charity recipients. The variables for the current study are the family size, age of the head, head education, gender and residential status of household head.

A household may be consisting of a single person or a group of people. Household with more family members will be poor as compared with families with fewer members. Age of the head is also very important in analysis of poverty. Household head with higher age may have a greater risk of being poor i-e (above the retirement age) (Moket al, 2007). In contrast, the risk of poverty may decrease within the household whose head age is between14-45. The correlation between the age of household head and his per capita income is positive in the age limit of 14-45. Head education is also considered one of the important determinants for poverty. The impact of education on poverty may be negative that is, higher education leads to decrease the risk of being poor (Weber et al., 2007). Gender is also one of the determinants of poverty. It is supposed that the risk of poverty may increases in household with headed by female and vice-versa. Like gender, the risk of poverty may increase in household living in rural areas as compared with urban areas.

FINDINGS & DISCUSSION

Table 1 shows the income of the poor households with and without the introduction of charity. Initially the income of the poor households is low but with the introduction of charity it has increased. It is shown in the table that overall income of the poor households has increased 20 % with charity. As for as rural and urban area is concerned, the income before the distribution of charity is low, but after the distribution of charity it has increased to 24% and 10% in rural and urban area. It means that charity has the potential to increase the income of the poor and hence, decrease the poverty.

Table 1: Changes in Household Annual Income with and Without Charity Distributions

Region	Income Without Charity	Income With Charity	Amount Of Charity Distribution	Percentage Of Charity to The Total Income (%)
Urban	7902450	8827040	924590	10.47452
Rural	18469400	24306056	5836656	24.01318
Overall	26371850	33133096	6761246	20.40632

Source: Authors own calculation

Table 2 shows the incidence, extent or deepness and severity of poverty before and after charity distribution in District Malakand.

Table 2 shows the analysis of poverty with and without charity distribution by applying the four major poverty indexes that is Headcount Index (HI), Poverty gap ratio (PGR), Mean income gap (MIG) and Sen Index (SI). These indexes show: (1) how many are poor? (2) The extent and deepness of poverty and (3) the severity of poverty.

It is clear from the table that poverty is more in rural area as compared with urban areas. As for as the household's size is concerned, results shows that the problem of poverty is more severe in households with 1 to 3 members. Because these households normally consist of old couple/folks. Similarly, the results show that families headed by a female are more likely to have poor in terms of incidence, deepness and severity

of poverty as compared with household headed by male. It may be because of cultural constrain or in terms of time constrain, energy. Similarly, results shows that poverty is more in those household's head, whose age are above 46. It is because that normally in this age the head of the family is not able to work regularly.

Table 2: The Analysis of Poverty Before and After Charity Distribution

Factor	Before Charity Distribution					After Charity Distribution			
	H1	P1	I1	P2		H2	P1	I2	P2
1) Overall	0.867	1816.2	0.4728	0.6541		0.811	779.8	0.3950	0.4339
2) Region									
Urban	0.846	1544	0.4450	0.6292		0.807	421.4	0.3889	0.4754
Rural	0.875	2214.8	0.4842	0.6310		0.813	1661	0.3975	0.4715
3) Household size									
1-3	0.923	2535.0	0.4719	0.6722		0.846	2036.1	0.4047	0.4843
4-7	0.855	1047.8	0.4515	0.6327		0.819	187.70	0.3620	0.5057
8 and above	0.869	2464.2	0.4940	0.6218		0.798	1170.4	0.4261	0.4387
4) Households head									
Male	0.850	1638.9	0.4607	0.6245		0.743	537.23	0.3841	0.4415
Female	1.00	3234	0.5703	0.6716		0.950	2720.4	0.4823	0.4659
5) Age									
14-25	0.833	1686.6	0.3686	0.6562		0.714	1322.7	0.3301	0.4650
26-45	0.858	1359.1	0.4471	0.6371		0.805	56.342	0.3602	0.4986
46 and above	0.885	2692.1	0.5336	0.6130		0.833	2079.0	0.4681	0.4210

Notes: H: Headcount Index (HI); P1: Mean Income Gap (MIG); I: Poverty Gap Ratio (PGR); P2: Sen index of poverty (SI).

Income Inequality

The value of Gini Coefficient lies between 0 and 1. The value equal to 0 indicates perfect equality and the value 1 indicates perfect inequality. Table 3 shows the value of Gini coefficient with and without the distribution of charity.

Table 3: Gini Coefficient Values With & Without Charity Distribution

	Without charity Distribution	With charity Distribution	Reduction Index
Overall	0.424195	-0.05643	0.480627

The results from Gini coefficient shows that income inequality of District Malakand has decreased significantly with charity. The table shows that without charity the value of Gini coefficient is 0.424195, after the inclusion of charity it is reduced to -0.05643. This indicates perfect equality of income after charity distribution. The reduction index is 0.480627. It means that charity has the potential to bring equal distribution of income in society.
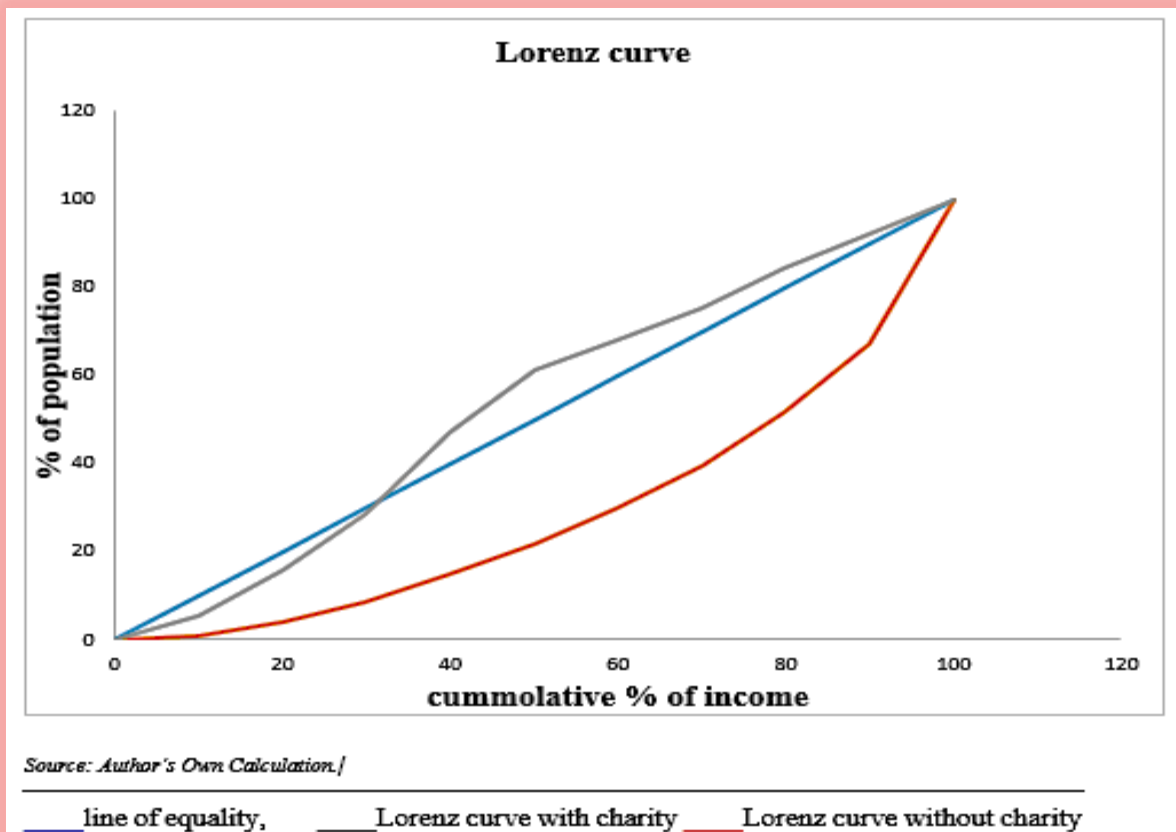
Table 4 shows the analyses of the size population and their percentage share in total income before and after charity distribution. The household are arranged in descending order of their total income and then are divided into successive deciles. As explain in the table 4.

Table 4: District Malakand Size Distribution of Household Income with and Without Charity Distribution

| | Population Percentage Share in Total Income | | | |
| | Without Charity Distribution | | With Charity Distribution | |
Population Percentage	Deciles	Cumulative Deciles	Deciles	Cumulative Deciles
10%	0.7052975	0.7052	5.6347549	5.6347
20%	3.3224821	4.027	10.06325	15.698
30%	4.6542051	8.6819	12.733543	28.431
40%	6.0776926	14.759	18.753269	47.184
50%	6.8921975	21.651	14.074350	61.259
60%	8.1966187	29.848	6.6773569	67.936
70%	9.7050453	39.553	7.2817754	75.21
80%	12.078219	51.631	9.4146119	84.632
90%	15.410371	67.042	7.5870433	92.219
100%	32.957869	100	7.7800402	100

The table shows that before charity distribution, the top 10% of population enjoys 32.95% of the total income as compared with bottom 10% of population that enjoys only 0.71% of the total income. Likewise, the top 80% of population received 51.64%. Whereas the bottom 40% of population received only 14.75% of the total income. These results show that the distribution of income in District Malaccan prior to the distribution of charity is unequally distributed.

With the introduction of charity, the income inequality has considerably improved as the two extremes bottom and top 10% receives 5.6% and 7.78% respectively. The same improvement is also shown with the help of Lorenz curve.

Lorenz curve

Source: Author's Own Calculation.

___line of equality,   ___Lorenz curve with charity   ___Lorenz curve without charity

It is clear from the figure that with the introduction of charity, the Lorenz curve came nearer to the line of perfect equality and then move above the same line i-e (the perfect equality line/ egalitarian line). This means that charity has the potential to bring equal distribution of income in the society.

DISCUSSION

The current study revealed a positive impact of charity on poverty reduction in terms of extent, severity and incidence of poverty. The distribution of charity in District Malakand has proven a significant impact on poverty reduction. The consequences of Household count ratio (HI), Poverty gap ratio (PGR), Mean income gap (MIG) and Sen Index (SI) measures suggest positive impact of charity in the reduction of poverty.

The current study shows that poverty is more severe in rural areas. It is because of the fact that rural areas have low employment opportunities, education and skilled labour. Likewise (Faudahjohari, 2014), the current study confirms that poverty is predominant in those households who are headed by female. It is because of the cultural and societal constraints in some particular jobs. The current study also reveals that poverty is more prevalence in those household whose head age is 46 and above because of decrease in physical and mental health/abilities. Results reveal that poverty is more among households' size at the limit of 1 to 3, which usually consists of an old couple.

The results of income inequality suggest that charity distribution has improved the income distribution of the poor household to be more equal. The results from Gini coefficient and Lorenz curve suggest perfect

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equality in the distribution of income among the poor households who may live below the poverty line.

CONCLUSION & RECOMMENDATIONS

Conclusion

The finding of the above poverty measures show that charity distribution plays a very important role in eradicating poverty by increasing the income of the poor households in District Malakand. Because with the inclusion of charity income of the poor's household has increased and there occur a reduction of poverty in District Malakand. Hence, we conclude that with the help of charity there occurs a reduction in the incidence, deepness and severity of poverty in District Malakand. Similarly, the inclusion of charity brings perfect income equality among the poor's household as suggested from Lorenz curve.

Policy Recommendation

the institution of various kind of charity should be strengthen and extended its role to bring equal distribution of charity in order to reduce the poverty of poor people.

Limitation And Future Research Directions

The current study has many limitations which takes into consideration. First the current study is on micro level while the macro level data is not utilized. Similarly, the data obtained from Pakistan Batul Mal for the eradication of poverty is not used in this research, therefore this study suggests that in future the scholars should conduct a study by taking data from Pakistan Batul Mal and to investigate its impact on poverty reduction.

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