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ZAKAT, EXTERNAL DEBT AND POVERTY REDUCTION STRATEGY IN BANGLADESH

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This paper estimates the impact of Zakat funds on the annual development plan of Bangladesh. While the Government of Bangladesh has been very keen on alleviating poverty, it has never looked at the institution of Zakat as a national strategy for poverty alleviation. We have shown that Zakat funds can replace government budgetary expenditures in amounts ranging from 21 percent of Annual Development Plan (ADP) in 1983/1984 to 43 percent of ADP in 2004/2005. This amounts to TK.30683 million in 1983/1984 to TK. 220000 million in 2004/2005. The government can utilize this money for other developmental or social expenditures. Zakat funds can increase the taxation potential of the government through the improvement of productivity, employment and output. The Poverty Reduction Strategy Paper (PRSP), on the other hand, is a lucrative issue as the governments of Least Developed Countries (LDCs) or Highly Indebted Poor Countries (HIPCs) are due to get more funds from the Aid Clubs that ultimately increase the dependence of our economy on the externally driven prescriptions. Though Bangladesh currently falls in the category of LDC, the country's increasing external debt burden may move it to an HIPC classification. The Domar Debt Model shows that the dynamic debt burden is 5.4% of GDP. Individuals behind the PRSP have some pious hopes of eradicating poverty. Unfortunately, neither the government nor the International Monetary Fund/World Bank see the need to include Zakat as a poverty alleviating instrument.

1. Introduction

Zakat is one of the most powerful poverty alleviating instruments available. Unfortunately, it has long been ignored by Westerners and

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Muslims alike. It has been claimed that mainstream economics has changed the poverty scenario in the name of micro credit; however, this policy does not really satisfy the social needs that ultimately could attack the inequality of a society. Zakat funds, on the other hand, can release funds from the government budget which can then be used for other social needs.

This paper focuses on the necessity of Zakat as a poverty alleviation tool in Bangladesh. In order to estimate the amount of substitutable Zakat funds in the government budget of Bangladesh, we have made seven assumptions following Kahf (1997). It is noteworthy to mention that the external debt burden on the national budget is gradually reducing economic independence and it leads us to prepare Poverty Reduction Strategy Papers (PRSPs) in order to get more funds from the Aid Clubs. The donor agencies (World Bank and International Monetary Fund) have been campaigning all over the world in hopes that the PRSP will reduce poverty. The Bangladesh government, however, has already approved the PRSP. While the Government of Bangladesh is very keen on alleviating poverty, it has never looked at the institution of Zakat as a national strategy for poverty alleviation.

The Fifth Five Year Plan (FFYP) of the Government of Bangladesh envisions GDP growth at an average annual compound rate of 7 percent. Given this GDP growth rate and an average population growth rate of about 1.37 percent per annum, it will take about 10 years for an average poor person to cross over the poverty line. The Plan includes poverty alleviation as one of its major objectives. This objective shall be achieved through accelerated economic growth during the Plan period to bring about a noticeable improvement in the standard of living of the citizens of Bangladesh by raising their level of income and ensuring adequate supply of basic needs. But nowhere in the Plan does the government mention the institution of Zakat and the potential role it can play in eradicating poverty from society.

The methodology of poverty alleviation started with the concept of trickle down growth, then moved to the basic needs approach, and finally adopted a target group approach. The government budgets reflected these changes over time. In the seventies, most of the developing countries, influenced by the ideas of a welfare state, incorporated funds for supporting the have-nots in their society. The concept of Zakat originated more than 1,400 years ago through a divine mandate as a means of support and relief for the poor. This way, equitable growth for all members in a society can be achieved. Zakat is a yearly financial obligation of society's wealthy individuals. It is an economic right of the poor and needy, which has to be fulfilled as part of the Islamic Faith. Zakat constitutes the basic institution that addresses the needs of the poor and needy in the form of a permanently working social and economic security system. Zakat is, however, not the only institution for the purpose of poverty eradication. Poverty can be tackled through other means such as infaq, nafaqat-e-wajiba, waqf, etc.

This paper is divided into eight sections. Following introduction, we present the poverty scenario in the Muslim world as well as in Bangladesh in section II. We outline the causes and determinants of poverty and characteristics of the poor in section III. We present the assumptions of this study in section IV. In section V, we estimate the amount of Government developmental expenditure that can be substituted with Zakat funds. In Section VI, we portray how Bangladesh is burdened with external debt that could easily be minimized by Zakat funds. In the section VII we stress the point that PRSP should include widely accepted Zakat issues in a Muslim country like Bangladesh. We present the summary and conclusions of this paper in section VIII.

2. The Poverty Scenario in the Muslim World and Bangladesh

The poverty situation in the Muslim world is quite alarming. Though some Muslim nations are gradually increasing their income level or GDP, the Gini Coefficients are portraying a much different scenario. This situation is not just occurring in the Muslim world. The rest of the world, in fact, is experiencing this alarming issue as well. Until the end of 1960's, the prevailing view among the international organizations was that the best way to combat poverty was to promote economic growth in developing countries by building the economic infrastructure, encouraging investment, liberalizing the economy and raising the efficiency of production. This view presumes that income from the increase in GDP will benefit all sections of society leading to the elimination of poverty. This is not necessarily correct as recent studies have shown that the size of poverty may even increase despite the significant economic growth as happened in the case of some Latin American countries during the 1980's (The World Development Report, 1990).

In light of the failure of the economic growth approach to alleviate poverty, the World Development Report (1990) recommended a dual approach to poverty reduction: a) efficient labor-intensive growth based on appropriate market incentives, physical infrastructure, institutions and technological innovation; and b) adequate provision of social services, including primary education, basic health care and family planning services. However, it is also indicated in the report that "transfers [of money] are needed to help those who would not otherwise benefit: the extremely destitute, the sick, and the aged, and safety nets must be provided to protect those most vulnerable to income-reducing shocks" (WDR, 1990, p. 138). The report estimated that this strategy would reduce poverty by the year 2000 from over one billion to 825 million. Unfortunately, statistics presented at the United Nations Conference on Social Development held in Copenhagen in 1995 indicated that the magnitude of poverty had already increased by 200 million compared to 1982 to a magnitude of 1.3 billion. It is also noteworthy that the World Bank report admitted the importance of providing a safety net for weak members of the society. Indeed, Islam realized this fact 1,400 years ago when it instituted Zakat.

The picture portrayed by international organizations about poverty and human development places the Muslim world amongst the most backward nations. All reports and studies agree that poverty is dominated in Sub-Saharan Africa and South Asia. If we take the member countries in the Organization of Islamic Conference (OIC) as representing the Muslim world, we find that 25 of them are placed among the 56 most poverty-stricken countries of Sub-Saharan Africa and South Asia. There are an estimated 285 million persons living in absolute poverty in the countries of the OIC, which amounts to 26 percent of the population. The poverty situation in the Muslim world, if appropriate actions are not taken, will continue to be bleak for many years to come (Human Development Report, 1994).

The underlying vision of the target group approach is to transform the poor into entrepreneurs via credit, training, technology, and access to markets which, in turn, imply emphasis on promoting self-employment rather than wage-employment. Over the period between the mid-eighties and mid-nineties when poverty alleviation associated with the target approach became increasingly dominant, the average annual rate of poverty reduction was less than one percentage point. *Such a modest reduction rate could not prevent the rising absolute number of the poor. This is the crux of the macro-failure of the new paradigm.* According to the Household Expenditure Survey (HES) of the Bangladesh Bureau of Statistics (BBS), rural poverty declined by less than one percentage point between 1983/84 and 1991/92 (it actually increased between 1985/86 and 1991/92 (Ravallion and Sen, 1996).

The HES, conducted by the BBS, represents the single most important source for estimating rural and urban poverty. The quality of the survey has substantially improved over time, particularly over the last three surveys. Using the recently accessed data for 1995/96 Ravallion and Sen (1996) and Sen (1997) examine what was happening to poverty in the first half of the nineties. While they are dealing mainly with the income dimension of poverty (which is, admittedly, somewhat restrictive), it is captured through the use of consumption expenditure data. The latter are, arguably, a more reliable measure than current income, and also a better reflection of the household's living standard.

Regarding Bangladesh, the HES data reveal the exact picture of the existing poverty scenario of this country. For instance, the percentage of the population living in poverty fell from over 70 percent in 1970 to about 50 percent in 2000. In addition, a decline of nearly 10 percentage points occurred in just the first half of the nineties. The rate of decline slowed between 1996 and 2000, corresponding to a slowdown in economic expansion. Table 1 illustrates the declining trends in poverty and extreme poverty from 58.8 percent to 49.8 percent, and from 42.7 percent to about 33.7 percent, during nineties.

The Annex 1 shows the total poverty line and the food poverty line, household poverty by region, age, gender, marital status, religion, disability status, literacy and education level, industry of employment status of the household head by household size groups, and by the number of children in the household for Bangladesh. While less than 30 percent of households with two or fewer individuals are poor, this proportion rises to 55 percent for larger households. Similarly, households with more children are more likely to be poor as poverty rates rise from 34 percent for households with no children to 65 percent for households with three or more children. The incidence of poverty varies from a low of 27 percent in "Other Urban Dhaka" to about 65 percent in "Rural Rajshahi". Poverty is far more prevalent in rural areas, being twice the urban rate. Note that there has been no decline in this ratio since the early 1990's.

There has been a substantial improvement in the welfare of those identified as poor through earlier rounds of the Household Income and Expenditure Survey (HIES). The impact of economic growth seems to have been widespread, with many people moving out of poverty (Table 1). The Poverty Gap (P1) measures the average distance the poor are from the poverty line and Poverty Severity (P2), the square of the Poverty Gap, investigates the distributional characteristics of the poor. Changes in these measures suggest that the average distance from the poverty line decreased for the poor between 1991/92 and 2000 from 17.2 to 12.9 percent, and the rate of decline in P1 and P2 measures were faster than that of head count rates (World Bank, 2004).

The HIES data suggest that inequality in the distribution of private per capita expenditure, as measured by the Gini coefficient, increased from 0.259 in 1991-92 to 0.306 in 2000. Most of the increase took place during the first half of the nineties. Urban inequality increased much more than rural inequality during this period. Decomposing the National Gini coefficient by sector suggests that this increase was due not only to rising inequality within sectors but also rising inequality between the urban and rural sectors.

While Bangladesh has made significant inroads in poverty alleviation, the overall incidence of poverty remains unacceptably high with nearly 50 percent of the population below the poverty line. Although the headcount rate has declined, the actual number of poor remained roughly the same during the nineties, around 63 million people. The number of people in extreme poverty declined modestly from 45 million to 42 million over the same period. In addition, the gap between the rich and the poor is widening day by day. The latest statistics, for example, reveal that the per capita income of the richest 5 per cent of the population was 18 times the per capita income of the poorest 5 per cent in 1991-92, which has risen to 84 times by 2005 (Ahmed, 2006). Thus, the rich-poor gap is gradually increasing. The Primary Report of Household Income & Expenditure

Survey-2000 (World Bank); Dec-.2001 (Table 2) reveals that the top 5 percent of income levels are gradually enjoying more resources while those in the lowest 5 percent bracket are experiencing a reduction in income. In 1988-89 the top 5 percent were enjoying 31.0 percent of the total income while in 2000 percentage had risen to 38.1. Conversely, the lowest 5 percent were enjoying 1.1 percent in 1988-89 and just 0.9% in 2000.

The upshot of the above evidence is to once again underscore the fact that, despite large injections of development resources channeled through government and NGO agencies over the last 15 years or so, the extent of rural poverty reduction was minimal. In the case of rural poverty, while there was a sign of some albeit modest improvement for those living in and around the poverty line during the nineties, the overall outcome appears to be no better than what prevailed in the mid-eighties. The situation of the rural poor hardly changed for the better during the recent period. These are the sobering messages that need to be taken seriously by the country's policy makers and development partners (Sen, 1997).

3. Determinants of Poverty and Characteristics of the Poor

The study of the characteristics of the poor is an important step to discern the causes and determinants of poverty. Although poverty profiles may differ among countries, and within countries through time, depending on the structural and cultural characteristics of various countries, there seems to be quite a number of similarities in the socio-economic characteristics of the poor in the OIC countries. Various studies conducted about the poverty profiles and characteristics of the poor in different developing countries (Schubert, 1994) have established that:

(a) Poverty is more extended and people are more affected by poverty in rural than in urban areas.

(b) Larger families suffer more than smaller ones from severe poverty and poverty itself is a factor behind larger families--a cause and effect relationship.

(c) Poor people are generally landless, and, hence, they are mostly agricultural laborers in the rural areas.

(d) People who are illiterate, have no or little access to education, have low levels of human capital and capacity to work are particularly vulnerable to poverty.

(e) Poor people are generally settled in regions that lack the necessary infrastructure and facilities and are, hence, prone to environmental risks and hazards.

(f) Poor people have a very high propensity to consume food items. Expenditure on food absorbs the greatest portion of a poor family's income.

(g) Access to and usage of public goods and services are very limited in the case of the poor people.

(h) Poor people in the urban areas are mostly employed in difficult, low-paid and socially looked-down upon jobs such as construction workers, street cleaners, etc.

(i) Poor people lack the ownership of physical and financial assets, and, accordingly, are usually wage earners.

(j) In many societies, poverty is associated with certain racial or ethnic groups and in other cases with some marginalised and/or forgotten regions.

(k) Poverty has some seasonal dimensions in that people get poorer in a cyclical manner. Examples of such situations are crop cycles, before harvesting, and climatic cycles, during drought.

Because of the diversity of poverty situations, a better understanding of the poverty dimension and its underlying causes could be realised if a distinction is made between the *intertemporal* and *cross-sectional* dimensions of poverty. El Sherbini (1986) explains that the intertemporal dimension means that poverty is a function of time. Poverty, and especially rural poverty, is thus linked to time through seasonal variations, cycles and secular trends. In many OIC countries, especially in Africa and Asia, where a country has only one major agricultural product, the adequacy of diets is very much affected by seasonality, where it is much better during and immediately after harvest and deteriorates thereafter. The cyclical dimension is manifested mainly by drought or floods or both, where the impact of cyclical droughts on the economies of some OIC African member countries, and floods on some OIC Asian countries, is well known, leading to widespread internal dislocations and migrations and creating inhuman belts of poverty around large cities. The secular trend reflects situations of gradual but persistent impoverishment, the results of which become apparent over a relatively longer period. Poverty in these situations is often linked to a marginalisation process which gradually squeezes the rural poor. This process takes various forms which eventually lead to the gradual erosion of the resource base of the poor, such as the gradual deterioration of land quality due to excessive and continuous farming.

The cross-sectional dimension of poverty relates to variations of intergroups within a society, certain groups, regions or localities within a country and regional or world comparisons. Some of the aspects of this cross-sectional dimension of poverty are the lack of participation of the poor in the affairs and development process of their country, the forgotten and marginalised regions, and the high cost of purchased food when some subsistence farmers shift from subsistence to cash crop farming (El Sherbini, 1986).

The reality of poverty is the result of a complex mix of economic, social and political factors; the interaction of which determines the position of an individual in the social structure of a society. In essence, the distribution of wealth and power is a function of the participatory capacity and chance of an individual in his society. It is then a matter of access to resources which enable an individual to continually improve his standard of living. The extended poverty in the developing countries is then a reflection of inequality in the distribution of wealth and income as well as political power.

4. Assumptions of the Present Study

We follow the assumptions made by Kahf (1997)[1] in order to study both the substitution effect of certain Zagat expenditures and the revenue effect resulting from the disbursement of Zakat funds.

Assumption I: Zakat proceeds are sufficient to cover needs

This assumption means that the implementation of Zakat shall be based

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[1] This section is based on Kahf (1997). For a complete discussion for these assumptions and the indirect effects of Zakat, please refer to Kahf (1997)article.

upon the most relevant Shariah opinion that enables the proceeds to be high enough to achieve the disbursement target of poverty eradication. There are different opinions in the Shariah regarding the items of wealth and income that are subject to Zakat. One opinion, for instance, considers that Zakat is only imposed on four types of agricultural products (wheat, barley, dates and resin), gold and silver, and freely pastured camels, cows and sheep. In most contemporary societies, this opinion excludes most of the items of wealth and income of the rich. Therefore, the proceeds of Zakat, according to this opinion, would be very small. Conversely, the most liberal opinion among the Islamic legal scholars considers that Zakat must be imposed on the wealth and income of the rich that exceeds the normal and customary personal and family expenditures, and things designated for personal and family consumption use such as “consumer durables”. According to this opinion, wealth (whether in the form of business assets, bank accounts, financial assets, rentable buildings and construction) and income (whether in the form of salaries, professional income, profit, rentals, and etc.) are subject to Zakat, keeping in mind the known exemptions and the conditions for Zakat payment. If this opinion is adopted, Zakat proceeds may reach as high as 8.6 per cent of GDP produced by the private sector. This assumption is necessary because if the amount of the proceeds from Zakat is very small, for example, below 1 per cent of GDP, the effect of its collection and distribution will be very small. Furthermore, most Government budgets do, actually, assign more than such a percentage for poverty relief.

Assumption II: Zakat is collected and distributed by the government

Zakat has to be collected and distributed by the Government. The Quran teaches us: “Take *sadaqah* from their *amwal* (wealth and income) in order to purify them, and sanctify them with it.” (Quran 9:103). That is why Abu Bakr (r.a.) considered those who denied the Government’s right to the collection and distribution of Zakat as unlawfully rebellious. Thus, we assume in this paper that Zakat must be collected and distributed by a governmental body which should, however, be autonomous in its finance and procedures from the Government budget. It should, therefore, have its own Treasury. Furthermore, Zakat will be collected by this Government body as an obligation supported by the authority of law, on all items of wealth and income of the rich as determined by the law of Zakat.

The benefit of this assumption is two-fold: first, it preserves the implementation of Zakat within the legal boundaries, and allows its collection even from those who may feel relaxed in its payment if it were left to their own conscience alone. The second benefit is that it allows the state to supervise its distribution, so that it fulfills the desired objective of poverty eradication.

Assumption III: The Islamic government can regulate the methods and approaches of Zakat disbursement

The Islamic Government may collect Zakat in cash or in kind, according to the most convenient method at the time, and/or in fulfillment of Government economic policy. Furthermore, the Government may also collect Zakat in the form of consumer goods, producer goods, or equities. It can also determine the dates of collection as well. As for distribution of Zakat proceeds, this can also be done in cash or kind, or by means of consumer goods, producer goods or equities.

Assumption IV: The costs of collection and disbursement are minimized

Some Muslim scholars in fact suggest that no more than one eighth of the Zakat proceeds may be spent on its collection and distribution. (Quardwai, 1996). This means that the administrative and operational costs of the Zakat governmental body must be kept to a minimum. In fact, it is always mentioned by Muslim scholars, that employment in the Zakat body must be made on an efficiency basis and Zakat employees must not be paid more than their competitive wages according to their qualifications. This assumption is necessary in order to fulfill the basic objective of Zakat, i.e., the eradication of poverty, by not allowing the administrative and operational costs of collection and disbursement to exceed a maximum of one eighth, under any circumstances.

Assumption V: Zakat does not create economic distortions from the perspective of equity and justice

This means that the implementation of Zakat does not cause any inequalities in the Muslim society. In this regard, inequalities could arise from two sources. First, it can come from a multi-religious society that has Muslims and non-Muslims living together, where Zakat was imposed on Muslims, without having a Zakat equivalent tax imposed on the non-Muslims. Second, it may come from defining Zakat in such a way that while subjecting certain items of wealth owned by a certain group of people, we exempt from Zakat others who choose to invest in other forms of wealth. This assumption is also necessary to avoid negative effects on the Government budget resulting from such economic distortions.

Assumption VI: Zakat collection does not reduce other government revenues

This means that we assume the introduction of Zakat in the society results in net new revenues to the Government. This assumption is based on the idea that, as a religious duty, Zakat is not an alternative to whatever the Government has already imposed in the form of taxes, or acquired as revenues from public properties, such as the revenues from oil and other minerals. Furthermore, this assumption implies that Zakat implementation does not incorporate a deduction of the amount paid as Zakat by the Zakat payer from their otherwise due income and/or property taxes.

Assumption VII: All Zakat proceeds are disbursed within the Year in which they are collected

This assumption allows us to consider the effect of Zakat disbursement during the year it has been collected, thus eliminating any time lag between collection and disbursements unless this is desired by the Government as a policy tool. In addition, it also eliminates the withholding and accumulation of Zakat proceeds within the Zakat Government organization itself. Hence, this assumption requires that the Zakat organization has the capacity, not only to collect Zakat from its payers on a regular basis, but also to disburse the proceeds to the deserving recipients without unwanted delay.

5. Substitutability Of Zakat Funds In The Government Budget For Poverty Alleviation

In this section, we delineate the areas of Government budgetary expenditures that can be fulfilled by Zakat funds at the conceptual level, then we apply this to Bangladesh to figure out what level and percentage of the Annual Development Plan (ADP) can be replaced by Zakat funds. Zakat, by definition, is a transfer payment from the rich to the poor. A small part of Zakat funds can be used for the Zakat administration. Those items saved from the Government budget are the items that correspond to the seven categories of Zakat recipients as stated in the Quran (60:9), i.e., a) the poor, b) the needy, c) those whose hearts are being reconciled, d) those in bondage, e) those in debt, f) in the cause of Allah, and g) the wayfarers. The various categories of collection and disbursement of the Zakat fund as given in the Quran, can be extended by analogy. It would then comprise expenditure in training for the unemployed, family welfare, rehabilitation of the aged, income support of the unemployed, and income support in case of economic losses. Zakat funds may also be allocated to those avenues of public expenditure which improve the working conditions and the efficiency of the eligible recipients. Improved housing facilities, health services, training programs, educational institutions and a number of similar services may be initiated for this purpose.

Following the concepts of welfare and socialist states, the Government of Bangladesh has included certain yearly expenditure items, which include both cash and in-kind expenditures, aimed at the same kind of categories of recipients as those covered by Zakat. Public expenditure data at a desired level of disaggregation are difficult to come by. Government budgets do not keep a separate record on what proportion of resources are spent annually on poverty alleviation. There are also definitional problems as to which of the expenditure heads should correspond to "poverty alleviation". Following Rahman and Sen (1997), we carry out a preliminary exercise to estimate the share of resources spent on alleviating poverty by considering the nature of individual projects included under the ADP. This exercise was carried out for several time-points since the early eighties using a uniform definition of "poverty alleviation" which gives a rough indication of the change in the level as well as the composition of public resources earmarked for poverty over time (Table 4). Projects are classified into three major categories: those having a direct bearing on growth, those relating to social sectors, and those corresponding to a "safety net".

The growth project has a direct impact on rural economic growth, which can be divided into two subgroups: projects relating to production sectors such as agriculture and rural industry, and those pertaining to physical infrastructure such as rural road, rural electrification, irrigation and embankment. The projects under social sectors include education, health, family planning, water supply and sanitation, housing, youth and women affairs related programs. The safety nets projects include mainly food-assisted projects and are generally covered by the revenue budget. Note that the emphasis here is not on the accuracy of definition: there can be debate about including individual projects under a particular category. The key idea here is to adopt a uniform definition so as to allow comparison over time.

Two striking messages emerge from this exercise. First, the aggregate allocation of resources which have either a direct or indirect bearing on rural poverty has gone up substantially since the early eighties, from a level of 30 percent to 50 percent by 2004/05. Second, the above trend of increased aggregate allocation has been accompanied by a compositional shift favorable to the poor. Educating children, at least in fiscal terms, appears to have received the top priority it genuinely deserves. Indeed, the weight of primary and secondary education in ADP has risen from a mere 11 percent in 1983/84 to 27 percent in 1994/95 but it declined to 14% in 2004/05 (Table 3). A pro-poor shift has also occurred within the rubric of public spending on physical infrastructure as expressed in the rising ratios for rural roads and electricity. One area which has emerged as a major source of concern and deserves special mention from the perspective of poverty alleviation is the stagnating trend in allocations for health. In short, while there is room for much improvement when it comes to allocating public resources for poverty alleviation, the overall fiscal scenario has in all probability changed for the better, both in terms of level and composition of such resources.

Since hard-core and general poverty rates are predominant in rural Bangladesh, we assume that about 70 percent of ADP expenditures go directly to the poor, and the rest goes to the rich who have income above Zakat Nisab levels. Following this assumption, Zakat funds can replace the government budgetary expenditures in the amount of anywhere from 21 percent of ADP in 1983/84 to 43% percent of ADP in 2004/05. This amounts to a Taka figure from 649 crore in 1983/84 to 9602 crore in 2004/05. The government can use this amount of money in other developmental or social expenditures.

Why did the poverty situation change as little as it did during the period since the early eighties through to the mid-nineties despite the "progressive" shifts in public spending? Public expenditures matter for poverty alleviation largely in-so-far as they are implemented effectively. In the final analysis, the quality of public investment rather than the increase in mere "quantitative" terms is going to determine the outcome in terms of the impact on poverty. It is well-known that an effective monitoring mechanism is lacking within the government.

The Government of Bangladesh spends less than five percent of government expenditures, equivalent to less than one percent of GDP, on safety net programs. Social protection programs have the potential to address vulnerability and income inequality and can help to improve social cohesion, provide strategies for risk mitigation by households, and reduce irreversible loss of assets. However, programs need to balance protection of the poor against their fiscal impacts. If poorly designed, programs can be expensive, have high opportunity costs, and incur deadweight loss.

It is possible to crudely simulate the expenditure that would be needed to eliminate poverty in Bangladesh at a point in time. The national poverty gap in Bangladesh is 12.9 percent. In order to cover this gap, perfectly targeted transfers to poor households (with no administrative costs or leakage) would cost 4.9 percent and 2.3 percent of GDP. This would bring households to the overall poverty line and the food poverty line respectively. These numbers would be equivalent to about 35 percent and 17 percent respectively of public expenditure. This is clearly unaffordable, particularly in a fiscally constrained environment such as Bangladesh. Zakat, no doubt, could help the government to meet the demand.

It is assumed that not more than one eighth of Zakat proceeds can be spent on the administration of Zakat governmental organizations, the rest of Zakat proceeds (87.5%) are to be spent on the poor and the needy. The Muslim jurists argue that employment in the Zakat body must be made on an efficiency basis and the Zakat employees should not be paid more than what they would otherwise get in the private sector with equivalent qualifications. If we assume that Zakat proceeds are sufficient to cover needs of the poor, equal amounts will be released from the government budget which can be spent on other social needs. In addition, the quality of public expenditure will improve because this fund will be managed by God-fearing employees, and we shall see improvement in the goods and services for the poor. The end result is that the disbursement of Zakat should be reflected by a marked improvement in the quality of life of the poor and of the whole society, and simultaneously releasing funds from the Government funds which can be used for other purposes.

6. Minimization of External Debt Burden Through Zakat Funds

A significant part of ADP is largely dependent on external debt burden. We, however, would like to minimize the external debt burden through collection of Zakat funds. Bangladesh, however, as a Least Developed Country (LDC) rather than a Highly Indebted Poor Country (HIPC), is seeking foreign grants and is largely dependent on foreign debt, especially for ADP implementation. The developing countries like Bangladesh should take control of their economic and social policy making and, instead of succumbing to donor directives in terms of aid-conditionalities or otherwise, should pursue sovereign policy-making based on the realities that they face within but keeping in perspective the relevant external circumstances (Ahmed, 2004).

It is not only in Bangladesh that the external debt burden is badly discouraged in almost all HIPCs and LDCs by academicians as well as professionals. Noreena Hertz, the Associate Director of the Center for International Business at the University of Cambridge, one of the leading experts on economic globalization clearly disclosed the problems associated with external debt burden in her latest book “The Debt Threat: How Debt is destroying the Developing World and Threatening Us All”. Regarding the debt threat, on the issue of sub-Saharan Africa, for example, some 15,000 children die every day from poverty-related diseases. Yet still the government is required to pay out some $30 million a day to the World Bank, IMF and rich world creditor nations. For every $1 that is given to that region in aid, $1.50 goes out to cover debt repayments, as Noreen portrays in her book.

Bangladesh belonged to the LDCs and has been overloaded with a severe external debt burden. Table 4 contains data on various aspects of external debt of Bangladesh. Total external debt of Bangladesh stood at $3,083 million in 1978. This rose to $5,651 million after five years in

1983. The rise continued and outstanding external debt amounted to $10,692 million in 1988. After another five years, in 1993, the amount stood at $14,650 million. This fell to $14,033 million in 1998 and then rose and stood at $16,276 million in 2002, the last year covered in this study. The data show that external debt of Bangladesh rose steadily from $3,083 million in 1978 to $16,276 in 2002 implying an average increase of $549.7 million per year.

Debt service, which is the sum of principal, and interest that is paid back each year, gives an indication of the burden of external debt. Debt service stood at $145.9 million in 1978 and it rose to $910.9 million in the last year of this study; that is, 2002. In terms of taka, this means that Bangladesh paid about taka 52,267 million in 2002 as debt service.

It is customary to consider debt service-GDP and debt service-export ratios to assess the burden of external debt (World Bank, 1997). It is found from Table 4 column 4 that the debt service-GDP ratio was 1.09 in 1978, rose to 2.24 in 1987, then fell to 1.64 in 1997, and increased to 1.91 in 2002. The ratio was highest in 1990 (2.59) and lowest in 1978 (1.09) but it is now hovering around 1.90. From Table 4, column 5, it is found that debt service-export ratio was 20.82 in 1978, rose to 28.00 in 1987, fell to 10.58 in 1997, and stood at 9.8 in 2002. The ratio was highest in 1986(30.39) and lowest in 1998 (8.9).

When the government borrows, it has to pay interest charges on debt. Assuming that this amount is paid from tax revenue, that can constitute a burden on the public. According to Domar (1944) the burden of public debt should be measured not by the absolute amount of interest charges and the resulting tax but by the ratio of the additional tax and national income. Domar argued that if income grew, an absolute increase in tax might not cause a hardship on the public. What matters is an increase in the tax-income ratio.

The statistics in the Table 4 were brought under the Domar Model test (Chiang 1967) and we found some information regarding the external debt burden of Bangladesh. The statistics indicate a steady increase in external debt for Bangladesh over the period of the study. Debt service payments have also risen and stood at $910.0 million in 2002, an amount equal to 5,231 crore taka. The analysis of historical data, however, indicates that the debt-GDP ratio and the debt-export ratio have fallen in the recent years, implying that GDP and exports have grown at faster rate than debt service (Islam, 2005).

The results of the Domar debt model show that the dynamic debt burden is 5.4% of GDP. This means that this burden is likely to remain around this rate in the foreseeable future, as there is no respite in sight for Bangladesh which has to borrow regularly from the Aid Club and other sources. The multilateral donor institutions have identified forty-one countries to be eligible for the HIPC initiative and are seeking a solution to their debt problems by combining substantial debt reduction with policy reforms to raise long-term growth and reduce poverty.

The findings of the paper presented by *Abdur R. Chowdhury*[2] show that the economic malaise due to foreign indebtedness is not limited to the HIPC group. Other low and middle income countries suffering from either severe or moderate indebtedness have also experienced an adverse effect on long-term economic growth. The paper aimed to enhance the existing literature on the debt-growth nexus by analyzing the relationship in two separate country groups using the extreme bounds analysis for sensitivity tests and the mixed, fixed and random coefficient approach that allows for heterogeneity in the causal relationship between debt and growth. Irrespective of the debt measure used, the results are robust across the two separate country groups, HIPC and non-HIPC, as well as two different testing procedures. The extreme bounds analysis indicates that the relationship between a debt measure and economic growth is robust to changes in the conditioning set of information included in the regression equations. The mixed, fixed and random coefficient approach, on the other hand, shows a statistically significant negative causal impact running from each of the four debt measures to economic growth in both country groups.

From a policy perspective, the findings have important implications. If the objective of the debt-debate is to enhance the long-term growth prospects of the indebted countries, it may not be enough to limit the debt reduction initiatives only to the forty-one HIPC group. Countries

[2] "Foreign Debt and Growth in developing Countries: A Sensitivity and Causality Analysis Using Panel Data" by A.R. Chowdhury. Department of Economics. Marquette University. Milwaukee, WI, 53201, USA

outside the HIPC initiative are also finding themselves in a vicious cycle of debt, low growth, poverty, and still higher debt. Without going into the merits of the proposals for debt write-off for all countries, it can be safely asserted that the initiative has to be extended to all the indebted countries, and not only to a selected few. Only then can the fruits of economic growth be enjoyed by all people. Otherwise, the debt-debate would continue in the near future without any net tangible results as new countries would inevitably join the ranks of the current HIPC group.

The Domar equation shows that Bangladesh has a very good possibility of being included in the HIPC group if it fails to sufficiently tax the economy or to reduce the external debt burden. However, the maximizing the tax would not be a popular mechanism. The substitutability of Zakat could be a good mechanism to get relief from the external debt burden.

7. Poverty Reduction Strategy Paper and Zakat

The world economy has grown steadily in recent decades, bringing widespread prosperity and lifting many millions out of poverty, especially in Asia. Nevertheless, in the next 25 years the world's population is projected to grow by about 2 billion people, most of who will be born in developing and emerging market economies. Without concerted efforts by countries to help themselves through sound policies and by the development community to increase its support of countries' own efforts, many of these people will be doomed to poverty.

Poverty Reduction Strategy Papers (PRSPs) are prepared by governments in low-income countries through a participatory process involving domestic stakeholders and external development partners, including the IMF and the World Bank. A PRSP describes the macroeconomic, structural and social policies and programs that a country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing.

The PRSP approach, initiated by the IMF and the World Bank in 1999, results in a comprehensive country-based strategy for poverty reduction. It aims to provide the crucial link between national public actions, donor support, and the development outcomes needed to meet the United Nations' Millennium Development Goals (MDGs), which are centered on halving poverty between 1990 and 2015.

The Government of Bangladesh has already approved the PRSP as required by the World Bank and the IMF as aid conditionality. For the IMF, the PRSP replaces the Policy Framework Paper (PFP), which was supposed to be a joint IMF-WB document outlining a country’s policies and reform proposals. Only highly indebted poor countries (HIPCs) and users of Enhanced Structural Adjustment Facility (ESAF) of the IMF are supposed to be required to produce a PRSP before they can seek program support from the IMF or the World Bank (Ahmed 2002). Bangladesh is not a HIPC, but as an LDC, it felt obligated to formulate a PRSP in the hope of getting future debt relief or new soft loans from the two donor agencies. The PRSP is supposed to contain the following three main features: 1) it will be developed in a participatory way; 2) it will be nationally owned; and 3) it will lay out a policy framework and agenda for poverty reduction (Islam, 2002).

The World Bank and the IMF asked assistance-seeking developing countries in 1999 for PRSPs to be prepared and submitted by them to the Bank-Fund duo for approval. This requirement has been imposed as aid conditionality (Action Aid, 2002). Bangladesh embarked on the task of its PRSP preparation in preparation in pursuance of this Bank-Fund call. Soft loans and grants had little, if any role to play in such ascents. In fact, loans and grants received in billions over the past three decades have not been of much avail for the country’s people at large. An overwhelmingly large part of those billions has gone to foreign consultants, contractors, and for the importation of luxury goods on the one hand and misappropriation by people in authority and their collaborators in business and other walks of life on the other. In reality, it is the people’s resilience and hard work that have in large part been responsible for country’s success stories. For example, there has been little public investment in agriculture since Independence. Indeed, at Independence, the population of the country was 73 million and we were virtually self-sufficient in food. Over half the country’s population, as pointed out earlier, is poor, without access to adequate food and other basic needs. It is worthily mentioned that not every country has so far chosen to prepare a PRSP. Notably, India refused to participate in this process.

It has been mentioned in the introductory chapter of the draft PRSP that in the process of its preparation, consultations with cross-sections of the stakeholders at upazila, division and local levels were held. These consultations, it is claimed, would both ensure the right priorities and a broad consensus on the poverty reduction agenda. But, while this conventional way of opinion surveys through consultations with cross sections of stakeholders is a step forward towards participation, the draft document does not contain a strategy that is either participatory or democratic. It essentially remains a bureaucratic exercise within the ongoing free market framework, as enjoyed by the World Bank and IMF.

There is one view that the available review process is an opportunity for expressing genuine opinions by concerned people to make the final documents as relevant and effective as possible. But, there is another view that since it is being formulated within the framework of the ongoing Washington Consensus based free market, its chance of success is no better than similar programs undertaken in the past. It is held by many that, in the PRSP preparation process, the so-called “policy ownership”, “participatory policy-making” and “consultations with the stakeholders”, on which the strategy is supposed to be based, are likely to remain hollow slogans as the final outcome is not expected by the World Bank and the IMF activities: “The IMF appears to believe that participation will not challenge [the structural adjustment] program content, i.e. it will not lead to radically different programs being formulated, it will simply give civil society a better understanding of why “IMF-style” reforms are necessary and thus ownership of them. Generally, many donors believe it will be business as usual with a greater focus on social sectors and better safety nets to address the poverty element” (Angel Wood, April 2000).

The document has rightly pointed out the need for safety nets in both the senses. But, it has also talked about credit, education, and health related activities as part of safety nets; these aspects should not be categorized as safety nets but as part of mainstream activities. The present socio-political and economic system of Bangladesh has been functioning as a prolific breeding ground of poverty. The “system” in Bangladesh breeds and reproduces poverty. It does not, in itself, alleviate poverty.

Theoretically speaking, if “surplus” is expropriated from the producers through different institutional mechanisms persisting in the economic, social and political system of a country trying to emulate the capitalist principles of the “open market economy”, and if equally strong mechanisms to plough back the surplus to the producers in different forms are not built up in the social system through the intermediation of increasing inequality in the distribution of income and wealth, exploitation and deprivation of a vast section of the productive population will occur. Economic growth itself cannot arrest the process of poverty creation and reproduction in such a society in the absence of strong redistributive mechanisms and pro-poor policies pursued by the state or through state-led security systems for the poor. Jean Dreze and Amartya Sen (1989) showed through their concepts “Growth-Mediated Security”, “Unaimed Opulence”, “Puplic Provisioning” and “Support-Led Security” and empirical evidence from number of country experiences that the state had a definite role in combating hunger and poverty in different developing countries.

Lamenting on the wrong development policies pursued by all the post-liberation regimes in Bangladesh, a leading economist of the country, Prof. Anisr Rahman notes the following historical facts of our economic developments process:

“The development strategy of increasing inequalities was followed with increasing commitment by each succeeding government, resulting in economic and social inequalities reaching the astronomical heights that they have reached today. And it seemed that rampant corruption was encouraged by all these governments as if as part of a strategy to distribute favors to their political allies and clientele to consolidate their power.” (Rahman, 1999). We need to review and rethink the role of the state and the ruling elite in Bangladesh on the issue of poverty creation and poverty reduction in the light of the honest evaluative comments mentioned above.

Poverty alleviation must start from adopting strategies for reversing the trend of inequalities in the society, and that the state has been instrumental in leading the society in the opposite direction. Therefore, the primary task will be the initiation of policy changes to arrest and reverse the process of deterioration of inequality in the distribution of both income and assets, and inequality in access to different vital institutions in the society. Let us quote Prof. Anisur Rahman:

"Having come as far we have come in the wrong direction, development needs to be assessed now in terms of growth with inequality alleviation rather than with poverty alleviation. This is not only because of the gross injustice in the distribution calculus but also because one's sense of poverty itself is relative, and the subjective index moves up with the display of wealth and ostentatious consumption notwithstanding where the economists of the national and international establishments put the "Objective" index. And a strategy of growth with inequality alleviation may in fact give higher growth with inequality alleviation may in fact give us higher growth itself in so far as resources will be channeled toward producer classes from rentier classes who have so far given us little growth." (Rahman, 1999, p.6)

We firmly believe that there is no short cut to poverty alleviation in Bangladesh except through the path of inequality alleviation. The discussion stated earlier has clearly portrayed that the PRSP bears the basic problems. It is widely participatory rather than externally driven and very less is emphasized on inequality alleviation.

Zakat could be a good mechanism to eradicate poverty in the Muslim world. According to Islamic Shariah, the whole community is divided into two categories. One is the payer of Zakat and the other is the recipient of zakat. It is important to note that a Zakat payer can never be a beneficiary to it. This feature is absent in the traditional tax system where the rich and the poor pay taxes and both of them have equal or differential rights to benefit directly or indirectly from the tax revenue. If we look at the nature of taxes we see that most governments find themselves safe by taxing heavily on the poor in the form of indirect taxes like value added tax, sales tax, excise duty, import duty, etc. If we look at the pattern of government expenditure we find that the poor are least beneficiary in comparison to rich. For example, pleasure tour of ministers and high dignitaries, erection of most modern, aristocratic and glamorous office buildings, play grounds, sculptures and monuments, five star hotels and luxury international airports, expanding and developing telecom, internet etc, holding of international games and staging international concerts, has no relation with the changes of the fate of the distressed humanity. In a Zakat based economy, poor are never taxed. Rather, there is continuous inflow of money or wealth to them in the form of Zakat until they reach to the position of a Zakat payer. A permanent outflow in the form of “Zakat” and “Ushar” from surplus community and a permanent inflow of the same amount to the deficit community undoubtedly bridges the gap between the poor and the rich and reduces the inequality of income.

In traditional capitalistic or so-called mixed economic systems, debt servicing is a mechanism that eats up the laborious and pains taking earnings of a debt burdened entrepreneur. The lender certainly enjoys a fixed rate of interest leaving all sorts of risks and hazards to the entrepreneur. The articulated name of this age-old exploitation is “the time value of money”. In a capitalistic framework, a moneylender is always on top. If there is any operating profit in trade, commerce and industry, the entrepreneurs enjoy only a part of it. But if there is any operating loss, the entrepreneur has to bear it entirely. No lender, individual or institution comes forward to share a single penny of the loss. Thus, the provision for repayment of debt along with interest, compound or simple, is a great impediment to reduce the inequality of income.

Islam realizes this hard reality and introduces Zakat to enable the debt-burdened poor to come out of the vicious cycle of debt. Repayment of debt is one of the eight definite and permanent heads of expenditure where the Zakat money should be spent. Anybody, ranging from a marginal farmer to an industrialist whose amount of liability is greater than his disposable assets are eligible for receiving Zakat. For example, an entrepreneur who was paying Zakat yesterday may face a sudden debacle due to natural catastrophe or some other social disaster. All of a sudden he may come down to a position where he will be in need of alms to repay his debt and overcome his bad luck. Any device other than Zakat could hardly benefit this drowning entrepreneur. Zakat alone is an unconditional and non-repayable donation to this distressed man to come out of danger and putt himself on the right track.

There are so many factors responsible for widening the gap between different income groups and no single measure would be sufficient enough to change the scenario in its totality. No doubt, Zakat is the most scientific as well as effective means of reducing income inequality. No other measure could be compared with Zakat. But, this is not the end. Islam suggests some other measure to ensure redistribution of income in society.

The most interesting point of PRSP is that in the nineties the national inequality index (GINI INDEX) was increasing at an accelerated rate! But in the very beginning of the technical exercise it was fatalistically assumed that nothing could be done to reduce the present level of inequality (Akash, 2005). Moreover, it was further assumed that in the future, inequality in society would continue to increase. Only on that basis the projection suggests that if and only if Bangladesh could achieve a sustained average growth rate of seven percent over the next twenty years we will be able to reduce absolute income poverty from the current level of 50 percent to 25 percent. This actually reflects the "Millennium Development Goal" for the developing countries (reducing the poverty rate by half within the next twenty years). However, as with "inequality" if we also assume that our growth performance will continue to remain same (i.e. two percent per-capita income growth) then number of poor people will increase from 63 million to 64 million!! What a tragedy. Our plan, even if 100 percent successful would be able to reduce the number of poor people living in the society to a level of only 43 million (the current level is about 63 million). So only 20 million poor people at the margin will be able to cross over the poverty line within the next twenty years and almost 68 percent of the current poor will continue to remain poor.

If PRSP truly bears some pious hopes of poverty alleviation, it must concentrate on inequality alleviation. Zakat could indeed be an instrument in this regard in a Muslim country like Bangladesh. It is worth mentioning, however, that collecting and distributing it to the poor would not bring any welfare until we fail to institutionalize it in order to empower the poor. We hope that donor agencies would initiate the suggestion of including the Zakat issue under the PRSP mechanism.

8. Summary and Conclusions

The implementation of Zakat in Bangladesh has several potential effects on governmental budgets. First, it can relieve budget categories targeted for poverty alleviation for other budgetary needs. Second, it can increase the taxation potential through improvement of productivity, employment and output. Finally, the Government can use the method and timing of Zakat collections as an important economic policy tool.

In the context of Bangladesh, the following conclusions can be drawn about the poverty scenario and the quality of public expenditure on it. First, recent HES data for 2000 show that prospects for poverty alleviation remain as bleak as ever. While urban poverty declined, the rural poverty situation displays divergent trends for different groups of the poor during the first half of the nineties. While there is a sign of some albeit modest improvement for those living in and around the poverty line in rural areas, it has remained virtually unchanged for the poorest individuals in these areas. The overall outcome shows the rural poverty situation in 2000 to be no better than that observed in 1985/86. In both rural and urban contexts, there has been a sharp increase in relative inequality, having adverse implications for subsequent economic growth and social stability.

Second, fiscal allocations in annual developmental budgets have increased since the early eighties. In addition, the composition of allocations is not unfavorable to the rural areas and the poor either, as reflected in the rising ratios for rural education, roads and electricity. As noted above, these progressive shifts notwithstanding, the poverty situation changed very little during the period. The broad conclusion that one derives from this has strong implications for governance. Implementation of the projects needs to be radically improved before one expects any favorable "impact" from their operations on poverty.

Third, the problems of good governance observed with respect to public expenditures on poverty alleviation are no less applicable to the NGO context. The relative micro-institutional efficiency of NGOs as a delivery system cannot be absolute when we take into account some of the disturbing developments in the recent years. Many of these programs initially claimed (and, perhaps, legitimately) to be highly successful (often termed as "miracles" or "near miracles"), but their subsequent development proved to be much less encouraging, even showing signs of deterioration in their overall performance and rating, as in the case of immunization, microcredit and food-for-education. However, the image associated with the initial success had its own dialectic, claiming a huge amount of aid resources even when they do not deserve such emphasis. In that sense, there is something mythical in the way these programs still claim to be successful and routinely get away with large funding with little accountability and transparency.

We have shown in this study that Zakat funds can replace the government budgetary expenditures in the amount of anywhere from 21 percent of ADP in 1983/84 to 43 percent of ADP in 2004/05. This amounts to taka figures ranging from 649 crore in 1983/84 to 9602 crore in 2004/05. The government can then use these funds for other developmental or social expenditures.

The results of the Domar Debt Model show that the dynamic debt burden is 5.4% of GDP. This means that this burden is likely to remain around this rate for the foreseeable future, as there is no respite in sight for Bangladesh, which has to borrow regularly from the Aid Club and other sources. An independent economy must not be burdened with huge foreign debt that ultimately leads to future economic crises.

Zakat stands on a clear Islamic philosophy that the real owner of wealth is God, and that human beings are only entrusted to make use of that wealth which they earn. The Quran teaches us: “And spend (in charity) out of the (substance) whereof He has made you heirs” [57:7]. Islam ordains certain regulations for expending one’s wealth considering the welfare of the whole society. All creatures are the children of God and He is their sustainer, and this is why He instructs the believers to take care of the needy. Within this general outlook, Zakat has been made mandatory to eliminate poverty. It is interesting to note that the highly developed countries in the West did not think of setting up a comprehensive social security system until the first quarter of the 20th century. Because of its religious nature the Muslims continue to pay it since the time of the Prophet (peace be upon him) until today. There are six countries in the Muslim world which collect Zakat by law: Yemen, Saudi Arabia, Libya, Sudan, Pakistan and Malaysia, while there are other seven countries which have established special institutions for the collection of Zakat on a voluntary basis: Egypt, Jordan, Kuwait, Iran, Bangladesh, Bahrain and Iraq. In almost in every country where there are a significant number of Muslims, many mosques, organizations and individuals take the responsibility of collecting and distributing Zakat. Another characteristic of Zakat is that it is well-defined from whom it should be collected and to whom it should be given. It is not up to the government of the day to tamper with it as it likes.

Since the major expenditure of Zakat is on the indigent, it realizes the policy recommended in contemporary studies that, for the alleviation of poverty "every country needs an adequate social safety net to catch those whom markets exclude" (Human Development Report, 1994). Because of its fixed and recurrent nature, Zakat allows the government to make a long-term strategy in combating poverty. In spending Zakat funds, priority should be given to the poor in the same region from which it has been collected. This creates a healthy feeling of solidarity between the rich and the poor of that region.

The most frequently mentioned words in the field of poverty are PRSP, especially in LDCs or in HIPCs. The paper actually criticizes the PRSP logically but did not ever reject the faith on the donors' agencies (WB or IMF). The PRSPs, of course, have some pious hopes of eradicating poverty. However, the mechanism should be internally driven. Democracy and rationale and must bear the courage to attack the inequality. Zakat, undoubtedly would fulfill the earlier criteria. Both the IMF as well as the World Bank recognizes Islamic Economics as a discipline; even they have the particular window for this arena. Therefore, in order to believe that they are truly behind the PRSPs, the issue of including Zakat as a poverty alleviating instrument not only in Bangladesh but in the rest Muslim world must be reexamined.

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Annex 1. *The poverty profile for Bangladesh*

	Headcount Index	Poverty Gap	Poverty Severity	Share of Total Pop
By Region				
Poverty Line	**49.8**	**12.9**	**4.6**	**100.0**
Barisal	39.7	8.9	2.7	5.6
Chittagong	47.7	11.5	3.9	25.4
Dhaka	44.8	11.5	4.0	28.2
Khulna	51.4	12.7	4.2	12.1
Rajshahi	61.0	17.7	6.9	28.7
Urban	36.6	9.5	3.4	14.76
Rural	53.0	13.8	4.9	85.24
Food Poverty Line	**33.7**	**7.3**	**2.3**	**100.0**
Barisal	28.8	5.3	1.4	6.0
Chittagong	25.0	4.8	1.4	19.6
Dhaka	32.0	7.0	2.2	29.7
Khulna	35.4	6.5	1.7	12.3
Rajshahi	46.7	11.5	4.0	32.4
Urban	19.1	3.8	1.2	11.34
Rural	37.4	8.2	2.6	88.66
By Age and Gender of Household Head				
Poverty Line	**49.8**	**12.9**	**4.6**	**100.0**
Less than or equal to 30 years	48.9	12.0	4.1	13.8
31-35 years	57.3	15.4	5.5	13.6
36-40 years	52.9	13.9	4.9	16.4
41-45 years	47.2	12.3	4.4	13.7
46-50 years	45.9	11.5	4.1	10.4
51-60 years	40.2	9.3	3.1	19.4
Age 61 years and above	38.9	9.8	3.5	12.7
Male	47.9	12.1	4.2	91.1
Female	44.7	12.7	4.9	8.9
Food Poverty Line	**53.7**	**7.3**	**2.3**	**100.0**
Less than or equal to 30 years	32.9	6.8	2.0	13.8
31-35 years	41.1	9.1	2.9	13.6
36-40 years	37.2	7.9	2.5	16.4
41-45 years	30.9	7.0	2.2	13.7
46-50 years	29.3	6.4	2.0	10.4
51-60 years	24.9	4.8	1.5	19.4
Age 61 years and above	24.7	5.7	1.9	12.7
Male	31.9	6.8	2.1	91.1
Female	32.0	7.5	2.6	8.9

Source: World Bank (2003) based on an analysis of the HIES (2000)

The poverty profile for Bangladesh

	Headcount Index	Poverty Gap	Poverty Severity	Share of Total Pop
By Marital Status of Head				
Poverty Line	**49.8**	**12.9**	**4.6**	**100.0**
Married	48.1	6.1	4.3	89.9
Never Married	28.2	13.6	2.2	2.8
Widowed	47.9	12.7	5.2	6.3
Divorced/separated	52.7		4.1	1.0
Food Poverty Line	**33.7**	**7.3**	**2.6**	**100.0**
Married	32.2	6.9	2.1	89.9
Never Married	14.3	3.7	1.2	2.8
Widowed	35.1	8.3	2.9	6.3
Divorced/separated	34.6	5.5	1.5	1.0
By Household Size Group				
Poverty Line	**49.8**	**12.9**	**4.6**	**100.0**
1-2 Persons	29.5	6.2	2.1	2.5
3-4 Persons	43.0	10.3	3.5	24.1
5-6 Persons	52.8	14.1	5.0	38.0
7-8 Persons	55.1	14.6	5.4	21.5
9-10 Persons	54.7	14.4	5.1	8.4
More than 10 persons	39.2	9.9	3.4	5.5
Food Poverty Line	**33.7**	**7.3**	**2.3**	**100.0**
1-2 Persons	16.1	3.5	1.2	2.5
3-4 Persons	27.8	5.8	1.8	24.1
5-6 Persons	37.2	8.3	2.6	38.0
7-8 Persons	37.1	8.3	2.7	21.5
9-10 Persons	37.1	7.5	2.4	8.4
More than 10 persons	25.5	4.9	1.2	5.5
By Number of Children in the Household				
Poverty Line	**49.8**	**12.9**	**4.6**	**100.0**
Zero children	34.4	7.6	2.5	33.0
1 child	50.7	12.7	4.4	34.7
2 children	61.3	17.0	6.3	22.4
3 children	69.9	21.2	8.3	8.3
More than 3 children	63.2	18.8	7.2	1.6
Food Poverty Line	**33.7**	**7.3**	**2.3**	**100.0**
Zero children	20.2	3.9	1.2	33.0
1 child	33.6	7.0	2.1	34.7
2 children	44.3	9.9	3.2	22.4
3 children	53.5	13.0	4.5	8.3
More than 3 children	47.4	10.8	3.5	1.6

Source: World Bank (2003) based on an analysis of the HIES.

The poverty profile for Bangladesh

	Headcount Index	Poverty Gap	Poverty Severity	Share of Total Pop
By Religion of Head				
Poverty Line	**49.8**	**12.9**	**4.6**	**100.0**
Islam	48.0	12.3	4.4	90.9
Others	43.3	10.0	3.4	9.1
Food Poverty Line	**33.7**	**7.3**	**2.6**	**100.0**
Islam	32.5	7.1	7.1	90.9
Others	25.8	5.3	5.3	9.1
By Education Level and Literacy Status of Head				
Poverty Line	**49.8**	**12.9**	**4.6**	**100.0**
No Schooling	60.6	16.1	5.8	56.5
Primary	40.2	9.4	3.1	14.7
Lower Secondary	33.3	7.3	2.3	8.7
Higher Secondary	18.0	3.5	1.1	18.2
University	4.1	0.7	0.2	2.0
Literate	29.0	6.4	2.1	54.6
Illiterate	61.2	16.3	5.9	45.4
Food Poverty Line	**33.7**	**7.3**	**2.3**	**100.0**
No Schooling	42.5	9.4	2.9	56.5
Primary	25.1	4.9	1.5	14.7
Lower Secondary	18.8	3.5	0.1	8.7
Higher Secondary	8.6	1.6	0.1	18.2
University	0.1	0.2	0.0	2.0
Literate	16.5	3.2	0.1	54.6
Illiterate	43.1	9.5	3.0	45.4

Source: World Bank (2003) based on an analysis of the HIES (2000).

Table 1. ***Trends in CBN poverty measures***

	Upper Poverty Line			Lower poverty Line		
	1991-92	1995-96	2000	1991-92	1995-96	2000
HEADCOUNT RATE (P0):						
National	**58.8**	**51.0**	**49.8**	**42.7**	**34.4**	**33.7**
Urban	44.9	29.4	36.6	23.3	13.7	19.1
Rural	61.2	55.2	53.0	46.0	38.5	37.4
POVERTY GAP (P1):						
National	**17.2**	**13.3**	**12.9**	**10.7**	**7.6**	**7.3**
Urban	12	7.2	9.5	4.9	2.6	3.8
Rural	18.1	14.5	13.8	11.7	8.6	8.2
SQUARED POVERTY GAP (P2):						
National	**6.8**	**4.8**	**4.6**	**3.9**	**2.5**	**2.3**
Urban	4.4	2.5	3.4	1.5	0.7	1.2
Rural	7.2	5.3	4.9	4.3	2.8	2.6

Source: Poverty in Bangladesh: Building on Progress (WB); June 2002

Table 2. ***Percentage distribution of income accruing to households in groups (deciles) and Gini coefficients***

Household Income Groups (Deciles) & Gini Coefficients	1988-89	1991-92	1995-96	2000
Total National	**100.0**	**100.0**	**100.0**	**100.0**
Lowest 5%	1.1	1.0	0.9	0.9
Decile-1	2.6	2.6	2.2	2.4
Decile-2	4.0	3.9	3.5	3.8
Decile-3	5.0	5.0	4.5	4.5
Decile-4	5.9	5.9	5.4	5.2
Decile-5	7.0	7.1	6.4	6.1
Decile-6	8.1	8.5	7.5	7.1
Decile-7	9.6	10.1	9.2	8.4
Decile-8	11.6	12.1	11.4	10.4
Decile-9	15.2	15.6	15.4	13.9
Decile-10	31.0	29.2	34.7	38.1
Top 5%				
Gini Co-efficient	0.4	0.4	0.4	0.4
Total Rural	**100.0**	**100.0**	**100.0**	**100.0**
Lowest 5%	1.1	1.1	1.0	1.1
Decile-1	2.7	2.7	2.6	2.8
Decile-2	4.1	4.1	3.9	4.3
Decile-3	5.1	5.1	5.0	5.2
Decile-4	6.1	6.1	6.0	6.0
Decile-5	7.2	7.2	7.0	6.8
Decile-6	8.3	8.6	8.2	7.9
Decile-7	9.7	10.3	9.8	9.1
Decile-8	11.7	12.3	11.9	10.9
Decile-9	15.1	15.7	15.6	14.1
Decile-10	30.1	28.0	30.2	33.0
Top 5%	19.8	17.8	19.7	24.1
Gini Co-efficient	0.4	0.4	0.4	0.4

Source: Preliminary Report of Household Income & Expenditure Survey-2000(WB); Dec.2001

Table 3. ***ADP budget items substitutable by zakat funds in rural areas of Bangladesh, 1983/84 to 2004/05 (millions of taka)***

Sectors	1983/84	1988/89	1992/93	1994/95	2004/05
A. Growth	**63.8**	**61.2**	**55.0**	**48.2**	**63.0**
Production	13.8	11.0	49.2	10.5	
Infrastructures	50.0	49.8	45.8	37.7	
(rural roads)	(4.2)	(5.9)	(11.3)	(14.3)	
(rural electricity)	(4.1)	(7.9)	(9.3)	(10.4)	
B. Human & Social Development:	**36.2**	**33.0**	**40.1**	**48.1**	**33.0**
Primary and Secondary -Education	10.8	11.5	20.3	27.4	14.0
Health	7.0	4.7	7.0	6.8	9.0
Others 1	18.4	16.8	12.8	13.9	10.0
C.Safety Net2	-	5.8	4.9	3.7	4.0
D. Total Allocation for Poverty Alleviation (A+B+C)	9266	16741	32725	49702	37172
E. Covered by Zakat3	**6486**	**11719**	**22907**	**34791**	**96020**
F. Total ADP Budget	30683	38299	67904	99786	20000
G. D as percent of F	30.2	43.7	48.2	49.8	62.35
H. E as percent of F	**21.1**	**30.6**	**33.7**	**34.9**	**43.65**

Note: 1. "Others" include spending on projects related to housing, family planning, women, youth, water supply & sanitation, etc.
2. relief and VGD programmes.
3. 70 percent of ADP funds is assumed to go directly to the poor covered by zakat funds.

Sources: 1. Data taken from Rahman and Sen (1997) and authors' own calculation.
2. The Daily New Age, June 11, 2004 (National Budget, 2004-05)

Table 4. ***External debt burden of GOB***

Year	Total debt million US dollars	Debt service Million US dollars	Debt service GDP ratio	Debt service Export ratio
1978	3083	145.9	1.09	20.82
1979	3282	237.2	1.52	26.59
1980	4230	277.8	1.60	23.67
1981	4663	226.5	1.16	16.81
1982	5233	253.7	1.40	20.42
1983	5651	217.4	1.26	14.57
1984	5857	286.7	1.47	17.74
1985	6870	355.2	1.64	22.43
1986	8282	479.0	2.21	30.39
1987	10149	546.8	2.24	28.00
1988	10692	504.2	1.90	22.13
1989	11118	522.5	1.91	21.30
1990	12768	790.6	2.59	28.95
1991	13482	629.8	2.00	21.41
1992	13928	574.3	1.77	16.46
1993	14650	567.8	1.67	14.40
1994	15373	603.4	1.74	14.06
1995	16767	811.7	2.08	14.79
1996	15166	698.0	1.67	11.82
1997	15025	704.6	1.64	10.58
1998	14033	644.6	1.46	8.60
1999	14843	781.4	1.71	10.10
2000	16211	915.9	1.94	10.70
2001	15074	838.8	1.79	9.20
2002	16276	910.9	1.91	9.80

Source: World Bank, World Development Indicators, 1998
Government of Bangladesh, Bangladesh Economic Review 2003