

## **A Socio-Economic Model of Productive Zakat for Poverty Eradication in Pakistan: Evidence through SME Creation and Ownership Transfer**

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### **ABSTRACT**

Structural poverty in Pakistan has not been eliminated by the extensive state-run zakat system. Through the creation of SMEs and full ownership transfer, this qualitative study develops a Zakat Based Productive Economic Model (ZPEM) that reallocates zakat from short-term consumer aid to long-term socio-economic development. The idea addresses the shortcomings of Pakistan's relief-oriented framework by drawing on traditional Islamic law from the four Sunni schools. According to data from Khyber Pakhtunkhwa, the disbursement of cash zakat grew from PKR 2.48 billion (2023–2024) to PKR 3.26 billion (2025–2026), mostly going for marriage prizes, Eid help, and stipends. An annual zakat allocation of PKR 1 billion targeted at 2,000–3,000 SMEs may generate 6,000–8,000 sustainable jobs annually, according to the proposed district-level model (Lower Dir). Through planned five-year cohort cycles, beneficiaries go from being dependent on zakat to being self-sufficient. Beneficiaries who are productive obtain full ownership of assets that generate revenue, while non-working beneficiaries receive continuous support via Baitul Mal. Effective zakat governance may reduce structural poverty, as shown by historical instances. According to the study, a centrally controlled zakat system that integrates SMEs is a workable strategy for long-term poverty reduction and ensuing welfare improvement.

**Keywords:** Socio Economic Model, Productive Zakat, Poverty Eradication, SME Creation, Ownership Transfer (Tamlik), Baitul Mal, Pakistan.

## Introduction

Pakistan has one of the most extensive zakat systems in the Muslim world, combining large individual payments with state-managed deductions. This resource base is rather large. More than 50 million people gave more than PKR 619 billion in zakat in 2024, according to a joint study by the International Centre for Tax and Development (ICTD) and Lahore University of Management Sciences (LUMS) (Geo.tv, 2025b). This amount exceeds the annual budget of the Benazir Income Support Programme, Pakistan's main cash transfer program, which was set at PKR 598.7 billion for the fiscal year 2024–2025 (Geo.tv, 2025b). Despite the enormous mobilization of governmental and religious resources, poverty is a deeply ingrained problem. According to the World Bank's 2025 assessment, 44.7 percent of people live below the USD 4.20 per day poverty threshold, while the Multidimensional Poverty Index indicates that more than 30 percent of people experience severe deprivation in terms of living standards, health, and education (World Bank, 2025; UNDP, 2025). The persistent discrepancy between resource mobilization and the effects of poverty points to a basic limitation in the way zakat is currently used, which primarily focuses on consumption rather than reform.

Similar trends can be seen in Khyber Pakhtunkhwa, where official data from the Zakat and Ushr Department shows that cash zakat disbursement increased from PKR 2.48 billion in 2023–2024 to PKR 2.55 billion in 2024–2025 and then to roughly PKR 3.26 billion in 2025–2026 (KP Zakat & Ushr Department, 2025; 2026). A number of cash-based welfare programs have been introduced by the provincial government, such as the Roshan Mustaqbil Card and Sahara Card, which provide eligible families fixed monthly stipends (The Nation, 2025). Through connections to digital payment networks like as HBL Konnect, beneficiaries get direct monthly remittances of around PKR 10,000 (The Nation, 2025). In 2025–2026, the total budget for Zakat, Ushr, Social Welfare, and Special Education grew by 135 percent to PKR 19.11 billion, mostly going toward monthly cash handouts rather than profitable investments (The Express Tribune, 2025d).

While this approach provides short-term relief, it does not address the problems of structural poverty. Its effectiveness is reduced by administrative inefficiencies. 552 cases of repeated payouts to the same individuals within a single fiscal year were found in a 2025 audit of the KP Zakat Department, highlighting deficiencies in beneficiary monitoring and eligibility evaluation (The Express Tribune, 2025a). Concerns over the absence of reparation mechanisms for ineligible payments have been voiced by parliamentary oversight. According to welfare studies conducted in Pakistan, frequent cash transfers may prolong cycles of dependency rather than promote long-term economic growth (World Bank, 2024). Additional criticisms draw attention to the risks of partiality, political influence in beneficiary selection, and unequal service delivery. The fragility of a system primarily reliant on cash-based assistance is shown by the 2025 suspension of Eid-related help for orphans and widowed women in Rawalpindi, which was ascribed to financial constraints (The Express Tribune, 2025c).

This study offers a qualitative analysis of a Zakat-Based Productive Economic Model (ZPEM) that transforms zakat from consumption support to structural economic transformation through the district-level establishment of SMEs, employment

creation, entrepreneurship development, and full ownership transfer. The suggested framework reallocates 65 to 70 percent of the zakat pool to build 2,000 to 3,000 micro and small businesses annually, in contrast to KP's prevalent cash-centric strategy, which allots around PKR 2.5 to 3.3 billion annually for consumption-based assistance. Through planned five-year beneficiary cohorts, this framework seeks to foster independence from zakat and provide 6,000 to 8,000 sustainable job prospects (KP Zakat & Ushr Department, 2025; 2026).

According to Abu Yusuf (n.d.), Al Qarafi (n.d.), Al Nawawi (n.d.), and Ibn Qudamah (n.d.), the main argument is based on classical Islamic jurisprudence from the Hanafi, Maliki, Shafi'i, and Hanbali schools. These schools collectively support interpretations of zakat that emphasize the eradication of permanent poverty rather than just temporary relief. When beneficiaries get productive assets like enterprises or capital equipment rather than throwaway cash, the concept of tamlik, or total ownership transfer, is more successfully implemented. When this framework is applied to Lower Dir District, it shows that a PKR 1 billion zakat pool can be successfully used to move about 16,000 people annually out of zakat eligibility, reducing the number of productive poor people from about 100,000 to 20,000 over a five-year period.

## Research Problem

Pakistan produces an estimated monthly resource base of approximately PKR 619 billion via both governmental and commercial channels, despite having one of the biggest state-administered zakat systems in the world (Geo.tv, 2025b). However, poverty continues to be a pervasive and structural problem across the country (World Bank, 2025). Financial stipends, health assistance, educational support, marriage rewards, and other short-term relief programs are the main foci of the present zakat usage structure. These programs help consumers right away, but they don't much increase the productive capacity of the families who benefit from them. The Zakat Fund distributed over PKR 27.93 billion to over 3.3 million recipients nationwide in the fiscal year 2023–2024, highlighting the dominance of welfare-oriented distribution over asset creation (Pakistan Zakat Fund, 2024).

The most obvious example of the failure of this relief-focused policy is Khyber Pakhtunkhwa. The KP Zakat & Ushr Department (2025; 2026) said cash zakat payments grew from Pakistani rupees 2.48 billion in 2023–2024 to Pakistani rupees 2.55 billion in 2024–2025 and are predicted to reach Pakistani rupees 3.26 billion in 2025–2026. Yet even with this improvement there are significant administrative inefficiencies. The 2025 audit found major gaps in governance operations and 552 cases of duplicate payments in one fiscal year and lack of mechanisms to track and verify beneficiaries (The Express Tribune, 2025a). Pakistan is ranked 168th out of 193 countries in Human Development Index (HDI) which shows that human development is weak. It has an HDI score of 0.544. The inequality results in a 33.1% decline to 0.364, reflecting the substantial structural differences in access to developmental outcomes (UNDP, 2025). The fact that poverty is still there even when large amounts of zakat are being provided indicates a basic flaw in the present social system.

It causes a bifurcation of the main research object. Islamic law originally intended

zakat to assist people become self-sufficient in the long term. But in current implementations, zakat is generally seen as monthly relief payments, which might keep people dependent longer. Second, there is no district level body in Pakistan that employs zakat to generate employment, build economic assets and remove organized poverty. The main distribution channel is via Small and Medium Business. Without such a structure, the money from zakat also goes toward consumption-oriented charity that benefits individuals in the short term but does nothing to address the core causes of poverty (World Bank, 2024).

## Research Objectives

The following goals are the focus of this study:

To examine the four Sunni schools of thought's historic legal foundations of zakat, with a focus on interpretations that support the beneficial use of zakat to promote long-term poverty reduction via asset ownership and business growth.

To critically assess, from a socioeconomic and institutional perspective, the operational and structural limitations of Pakistan's current relief-oriented zakat distribution system.

To create an operational framework at the district level for a zakat-based model that promotes tamlik (full ownership transfer) via the establishment of SMEs, the expansion of microenterprises, the development of skills, and the creation of jobs.

To create and assess mechanisms for beneficiary graduation, monitoring, governance, and mentorship that enable the shift from zakat dependence to long-term financial security and final discharge from eligibility within a certain period of time.

The fifth objective of this study is to assess the macroeconomic and socio-economic consequences of the proposed model including the impacts of the model on the growth of SMEs, job creation, income distribution, local economic multipliers, poverty alleviation dynamics, and long-term welfare transitions while differentiating between beneficiary categories that are productive and non-productive in line with the principles of Islamic distributive justice.

## Research Gap

A detailed examination of the literature available reveals important gaps that the study intends to fill.

While the potential of zakat in poverty alleviation has been extensively studied, the study has primarily focused on consumption-oriented assistance and rapid relief methods such as monetary transfers and provision of needed products. The potential of zakat to help reduce structural poverty via the purchase of assets, the creation of enterprises and the continuous generating of revenue has not been given nearly enough attention. The World Bank (2024) observes that the study is mostly based on a welfare perspective rather than a transformation-oriented development strategy.

Secondly, a lot of classic Hanafi, Maliki, Shafi'i and Hanbali legal literature supports the legitimacy of productive zakat but this has seldom been translated into a systematic, empirical and district level practical framework. Specifically, there is a gap between modern development economics and fiqhi discourse on how to alleviate poverty, grow small and medium-sized enterprises (SMEs) and create job opportunities (Abu Yusuf, n.d.; Al Qarafi, n.d.; Al Nawawi, n.d.; Ibn Qudamah, n.d.).

Finally, the present systems for applying zakat do not provide a visible pathway to graduate or depart. Success of the programs is often assessed by the number of recipients each year instead of the proportion of people who are able to overcome poverty permanently. Currently, Pakistan's zakat policy design does not include cohort-based progression, formal graduation requirements, SME development goals, and five-year transition pathways.

People forget the greater social and socioeconomic implications of productive zakat. There has been little study into its potential impacts on local economic multipliers, income distribution, supply-side stability, labor absorption and SME development. The absence is particularly important because of the important role played by SMEs in the economy of Pakistan. SMEs constitute over 90% of all business entities in the nation and employ a big proportion of the non-agricultural workforce, generate a substantial share of exports and contribute over 40% to GDP (SMEDA, n.d.; State Bank of Pakistan, 2024; The Financial Daily, 2025; ILO, 2024).

Fifth, there is a scarcity of qualitative studies that combine the dynamics of the small and medium business (SME) sector with current development economics, traditional Islamic law, regional socioeconomic realities, and institutional governance framework such as Baitul Mal. Contemporary research tends to segregate these subjects, creating analytical frameworks that are too fragmented to be relevant for policy-making in majority-Muslim countries. By developing an interdisciplinary framework that anchors productive zakat in the structural realities of Pakistan's SME sector and the broader socio-economic milieu, this study fills a knowledge gap and provides a more holistic and practically grounded approach to poverty alleviation.

The article is divided into the following sections: Section 1 comprises the introduction, research issue, research aims and research gap. In Section 2 we analyze the relevant literature and legal precedents, assess the present system, and build theoretical and conceptual frameworks. Section 3 describes the research approach. Section 4 gives the outline of the proposed Zakat Based Productive Economic Model (ZPEM) and its structure, graduation process, institutional requirements, historical data and macroeconomic consequences. Section 5 concludes the study.

## Literature and Juristic Foundations

The Zakat-founded Productive Model is founded on a coherent body of legislation that arose from the four major Sunni schools of Islamic law Hanafi, Maliki, Shafi'i and Hanbali. Different schools of thought may disagree on the methodology but they all agree on one thing that zakat is both for short term survival and for self-reliance in the long term. The Hanafi tradition values outcomes above form and in Kitab al-Kharaj it is said that Imam Abu Yusuf authorizes zakat distributions that enable the poor to become self-sufficient, even if this is beyond the immediate consuming necessities (Abu Yusuf, n.d). The Maliki school of thought, particularly Imam Al Qarafi, provides a clear definition of zakat in line with the goal of ighna' (the eradication of need) in Al Dhakhira, authorizing the distribution of zakat to capital, instruments or productive methods upon attainment of this goal (Al Qarafi, n.d.). The Shafi'i Imam Al Nawawi in Al Majmu' argues for the use of zakat to create permanent sources of income, such as commerce or a profession, to replace the use of circulating sources with solid livelihoods (Al Nawawi, n.d.). Ibn Qudamah notes in Al

Mughni that the Hanbali position is that productive assets like as tools and equipment that may be utilized to create independent income and sustainable lives can be distributed (Ibn Qudamah, n.d.). Collectively, these arguments create a case for zakat as a legal tool for fighting poverty in the long term.

A frequent criticism of productive zakat is tamlik, the requirement to give the recipient full ownership. Classical juristic reasoning is not hostile to productive application. On the contrary, it enriches it. Cash-based consumption transfers, because to their quick wearing-off benefits and the possibility of the recipient slipping into poverty, can only aid tamlik in the short term. When productive assets such as enterprises, equipment or money are transferred, tamlik is institutionalized in a permanent and effective manner. This leads to a sustained economic independence and growth of income. Traditional fiqh dictates that eligibility for zakat is based on ghina, or lack of self-sufficiency, hence once a person has achieved sustainable independence they are no longer eligible to receive zakat. This implies that zakat, according to Islamic law, is not supposed to give a momentary relief from poverty, but to permanently eliminate it by ways that restore economic liberty, productivity and dignity.

### **Critique of Pakistan's Existing Zakat System**

Pakistan's zakat system is a one-off support, comprising stipends, medical, educational and marital incentives. Pakistan is big. The Pakistan Zakat Fund has donated PKR 27.93 billion to about 3.3 million persons in 2023 and 2024. Growth of Zakat Fund is expected in coming years. The report said that Khyber Pakhtunkhwa monthly zakat collection is projected to go up to 3.26 billion Pakistani rupees in 2025-2026 from 2.48 billion in 2023-2024 and 2.55 billion in 2024-2025. This is a significant rise compared to 2023-2024. Cash-based programs such as the Roshan Mustaqbil Card, Sahara Card and monthly Eid aid packages fortify the framework (The Nation, 2025).

Such actions may temporarily lower consumption but do not alter the economic systems that determine income, wealth ownership and long-term resilience. Transfer-based welfare systems may decrease poverty in countries with informal labor markets, limited access to productive credit and uneven asset distribution, but they cannot solve structural poverty (World Bank, 2024, 2025). The HDI (Human Development Index) of Pakistan is 0.544. Pakistan has challenges to its human development. These concerns are reduced by 33.1% with inequality and persistent multidimensional poverty (UNDP, 2025).

One of the main weaknesses of the system is the lack of administrative efficiency. In one fiscal year, the KP Zakat Department identified 552 such settlements in 2025, The Express Tribune (2025a). This investigation identified potential concerns with receiver verification and monitoring. Criticism of the governance of the relief system for failure to collect erroneous payments has demonstrated governance difficulties.

These problems are a classic example of a fully developed institutional architecture development in which formal compliance procedures do not effect society. There is a fear that Islamic financial institutions may not be able to deliver economic fairness and risk-sharing as per the Islamic precepts. The key factor is consumer driving even with organized collection and distribution of Zakat in Pakistan. Small and medium-

sized enterprises, a key source of employment and income are not used for zakat distribution. This limits the zakat's potential to alleviate structural poverty (SMEDA, n.d.).

## **Theoretical Framework**

This study is grounded in three interrelated theoretical pillars that collectively inform the design of the Zakat-Based Productive Economic Model.

### *2.2.1 Classical Islamic Juristic Theory of Productive Zakat*

Ancient Sunni jurisprudence serves as the foundation for this book. A widespread idea among the Hanafi, Maliki, Shafi'i, and Hanbali schools is that the effectiveness of zakat is determined by its ability to end poverty rather than by how it is distributed (Abu Yusuf, n.d.; Al Qarafi, n.d.; Al Nawawi, n.d.; Ibn Qudamah, n.d.). When beneficiaries get productive assets, like as capital, tools, or enterprises, rather than consumable gifts, tamlik, or the complete transfer of ownership, is more successfully accomplished. The normative and doctrinal basis for successful zakat is provided by this legal position.

### *Structural Transformation Theory in Development Economics*

The second pillar is structural transformation theory, which explains how labor shifts from low-productivity industries to higher-productivity jobs, particularly in micro, small, and medium-sized businesses, to alleviate poverty (ILO, 2024). According to this study, zakat is conceptualized at the district level as development capital that promotes the transfer of productive assets, company expansion, and skill development. Instead of continuing consumer aid, this change promotes ongoing income growth, enhances social mobility, and reduces long-term poverty via asset ownership (World Bank, 2025).

### *Institutional Governance Theory and SME Ecosystem Integration*

Institutional governance theory, which emphasizes that effective resource mobilization requires structured administration via centralized institutions like Baitul Mal, is the third pillar. Zakat administration is designated as an institutional requirement by the Qur'anic mandate in Surah At-Tawbah (9:60), which highlights the need of methodical procedures for collection, distribution, and oversight. Zakat distribution is fragmented and consumption-focused in the lack of institutional coordination and integration with SME ecosystems, which limits its transformative potential. Accountability, strategic planning, and alignment with the productive sectors of the economy are all ensured by effective governance.

## **Conceptual Framework**

The conceptual framework converts theoretical foundations into measurable constructs that clarify how productive zakat, made possible by the creation of SMEs and the transfer of ownership, helps to eradicate structural poverty.

### *Independent Construct (Intervention)*

The autonomous concept of the Productive Zakat Intervention, which moves the emphasis of zakat from helping consumers to helping small and medium-sized firms

(SMEs) in the establishment of productive assets. It consists of four components, mutually coupled with each other; *first*, the transfer of ownership of assets, also known as tamlik, is the full transfer of the working capital, equipment, productive tools, microenterprises or small and medium-sized businesses (SMEs) to the beneficiaries who are eligible for the transfer. *Second*, development of Small and Medium-sized Enterprises (SMEs) and Microenterprises Small companies will be systematically developed in line with the needs of the local market and the economic situation of the district, with the aim of creating 2,000-3,000 businesses annually. *Third*, education and skill development, including via apprenticeship and vocational training programs that are demand-driven and linked to the expansion of small and medium-sized companies (SMEs) and job prospects (ILO, 2024). And finally, to generate 6,000 to 8,000 employment each year by directly developing sustainable employment opportunities within the ecosystem of small and medium-sized companies (SMEs).

### ***Mediating Constructs (Mechanisms)***

There are two main processes that help to connect intervention and outcomes and they are: Ongoing managerial and technical help in the first stages of business growth, including operational guidance, market access, and financial management. Mentoring drives this sort of monitoring. On the other side, graduation criteria are certain income restrictions that are used to specify when one ceases to be eligible for zakat. The criteria are set by administrative procedures to make sure that graduation is unambiguous and final.

### ***Dependent Construct (Outcomes)***

According to the World Bank (2025), the phrase "continuous improvement above poverty thresholds" is used to define the concept of "structural socio-economic poverty eradication," which is the dependent notion. The following is how it is operationalized:

Complete independence from zakat dependence via graduation.

Consistently generating income above requirements for the poverty level.

Ownership of enterprises or productive assets.

A decline in the prevalence of poverty within certain districts that is cohort-specific.

The expansion of the SME sector, job growth, increased local productivity, greater family income levels, improved social mobility, and a decrease in the transmission of intergenerational poverty are examples of secondary outcomes (SMEDA, n.d.; UNDP, 2025).

### ***Moderating Constructs***

The effectiveness of adoption is affected by the following two moderating effects; first, the old, handicapped and chronically sick are excused from production obligations and are supported on a continuing basis via the special distribution of zakat contributions. This categorization system is called beneficiary classification. Second, execution of zakat is dependent on the centralized management of the zakat linked with SMEDA and other economic organizations according with the principles of governance provided in the Qur'an (Qur'an 9:60).

## ***Summary of the framework logic***

The strategy may provide a quantifiable reduction in poverty, the expansion of firms and the creation of employment opportunities by systematically directing zakat (approximately 65–70%) to productive activities based on small and medium-sized enterprises (SMEs). This is achieved by establishing mentorship and graduating programs. A parallel supply of thirty to thirty-five percent is developed to guarantee that social assistance is maintained for those beneficiaries who are not productive. The combination of the two ways leads to the formation of a dual system that successfully combines Islamic distributive justice and economic production for the easier reduction of structural poverty in the long term.

## **Research Methodology**

### **Research Approach**

This study utilizes a qualitative, document-focused, model-development method that is rooted in interpretive and analytical frameworks (Braun & Clarke, 2006; Lincoln & Guba, 1985). The main objective of this project is to provide a framework for implementation of Zakat based poverty eradication model at district level in District Dir Lower, Khyber Pakhtunkhwa.

A major contextual limitation that affects the research design is the absence of integrated administrative data on zakat payers, zakat collections and beneficiaries eligible for zakat at the district level. This discrepancy indicates a core institutional failing in the beneficiary mapping and data keeping of the zakat administration system. This is not a coincidence but a basic institutional deficiency. Thus, traditional empirical techniques like as surveys or sampling at the home level are not appropriate. To close this structural data gap, the study proposes a district model consistent with theory and policy. It achieves this by adding the following:

Collecting information on development standards at national and international levels;

Conventional Islamic law writings about zakat distribution

When available, official zakat reports

Data related to the SME sector

A methodical simulation of beneficiary distribution and zakat allocations at the district level

This technique allows to develop a normative-analytical and implementation-oriented model, which makes it unnecessary to do just a descriptive empirical study. This systematic method is a depiction of the operationalization of zakat for the aim of poverty alleviation in small and medium enterprises in the setting of a real world district.

### **Methods of Sampling**

A purposeful theoretical sampling method is used (Lincoln & Guba, 1985). The selection of materials is based on how relevant they are to development economics, Islamic legal principles, and the institutional feasibility of zakat implementation.

The lack of disaggregated administrative data on zakat donors and beneficiaries provides crucial justification for the inclusion of a fictitious district-level dataset (Dir Lower model). This shortcoming is attributed to a structural inadequacy in district-level integrated zakat database management, beneficiary monitoring systems, and

official record-keeping.

As a result, the hypothetical model functions as a methodical analytical stand-in for actual data, enabling:

Evaluation of potential zakat funds;

Simulation of recipient selection processes

Evaluation of productive zakat allocation's effectiveness

Assessment of the impact of SMEs on poverty reduction

This methodological choice aligns with scenario-based planning strategies that are often used in development economics in situations when institutional data systems are inadequate or fragmented.

## The Proposed Zakat-Based Productive Economic Model (ZPEM)

The Zakat-Based Productive Economic Model (ZPEM) is applied at the district level to suit the local economic situation, the dynamics of the ecosystem of small and medium sized company (SMEs) and the monitoring systems. A good example of a relevant environment is the Lower Dir District which is characterized by low industrialization, high labor informality, limited access to formal credit markets and dependence on microenterprises, small scale services and commerce. Moreover, the Lower Dir District is known for its reliance on commerce. Typical of Pakistan, most districts in Pakistan share similar characteristics. An overview of the framework and execution structure for the resource allocation at the level of the district is shown in Figure 1. These issues are closely related to the aims of SME development and employment creation.

**Figure 1: Zakat-Based Poverty Eradication Model (Dir Lower, KP)**

| Zakat-Based Poverty Eradication Model:<br>District Resources & Implementation Structure                                     |                                           |  |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--|
| Component                                                                                                                   | Description (District Level)              |  |
|  District Coverage                       | Dir Lower, Khyber Pakhtunkhwa             |  |
|  Total Population (Approx.)              | 1.5–2 million                             |  |
|  Zakat-Paying Households                 | 10,000                                    |  |
|  Average Zakat Per Payer                 | PKR 100,000 Annually                      |  |
|  Annual Zakat Pool                       | PKR 1 Billion                             |  |
|  Zakat-Eligible Individuals              | 100,000                                   |  |
|  Initial Targeted Beneficiaries (Year 1) | 20,000–25,000 Individuals (20–25%)        |  |
|  Share Allocated to Productive Zakat     | 65–70%                                    |  |
|  Share Allocated to Permanent Support    | 30–35%                                    |  |
|  Priority Use                            | Employment, Micro-Businesses, Skills      |  |
|  Ownership Structure                     | Full Ownership Transferred to Beneficiary |  |
|  Monitoring Model                        | Mentorship-Based Supervision              |  |

Source: Author's Construction

There are roughly 10,000 households in the zakat pool and each household pays an average of PKR 100,000 a year. The zakat fund at the district level is at about p. In

the paradigm that has been proposed, zakat resources are considered as local development capital for the setting up of firms. This is in contrast to the view that they are passive relief expenditures. 65 to 70 percent goes to productive activities via the establishment of SMEs and complete ownership transfer rather than erratic stipends based on consumption.

Households with entrepreneurial skills or market experience may get specialized support for the formalization, maintenance and extension of income-generating activities via the creation of registered microenterprises or service companies. On the other hand, families without prior business experience or skills take part in structured training and apprenticeship programs designed to meet the demands of the SME sector and local labor demand (ILO, 2024). Zakat is not a long-term solution, but rather a short-term source of funding for income growth.

## **Operational Mechanics: Skills Mapping, SME Creation, Employment Generation, and Ownership Transfer**

### ***4.1.1 Skills Mapping and Alignment with Local Economic Demand***

Zakat-eligible households are first systematically identified at the district level using the Zakat-Based Productive Model (ZPEM), taking into account their abilities, skills, and local economic needs. This approach evaluates productive potential using social capital, present skills, and labor market alignment in addition to income-based factors. Many families have practical skills in vocations including tailoring, construction, mechanics, barbering, transportation services, and unofficial repair work in areas like Lower Dir District. Rather than a lack of labor capacity, poverty in these situations is mostly brought on by a lack of capital, tools, market access, and formalization (World Bank, 2025).

Gender-sensitive mapping ensures that women's participation aligns with culturally appropriate, home-based, or community-focused businesses, such as small retail businesses, teaching, food processing, tailoring, and needlework. Local economic integration is improved and the danger of company failure is reduced by this strategic alignment of competences with SME needs.

### ***SME-Based Employment Generation and Productive Zakat Allocation***

Zakat is used as a tool for employment and SME development after skills mapping, not as a poverty handout. The strategy highlights micro and small businesses as the primary source of income, given that SMEs are the main employers in developing nations (ILO, 2024). Nearly 80% of Pakistan's non-agricultural workforce is employed by SMEs, which contribute more than 40% of the country's GDP (SMEDA, n.d.; State Bank of Pakistan, 2024).

Zakat-funded programs are delivered in two ways: either by creating new microenterprises in underserved local markets or by placing and apprenticing newcomers into existing small and medium-sized corporations (SMEs). These firms – ranging from retail shops and repair services to food processing plants and domestic service organizations – are intentionally low-capital, demand-driven and regionally embedded. One of such enterprises is retail shops. The aims are to seek long-term income stability, slow wealth accumulation and gradual formalization, rather than quick increase.

## ***Ownership Transfer and Enterprise Governance***

The paradigm mainly exploits the mechanism of transfer of ownership or tamlik in both the legal and practical sphere. Zakat grants provide the beneficiary funding, equipment and inventory to establish businesses. The recipient then takes full legal and financial ownership of the company. This procedure turns beneficiaries from assistance recipients into asset owners, while at the same time ensuring that conventional legal conventions are followed.

When people own a company they tend to change economically and behaviourally because they have more motivation to be responsible, to try more and to invest in the firm. When firms acquire a stable condition and the beneficiaries reach income levels that make them eligible for zakat, the beneficiaries undergo a scheduled graduation process. This enables zakat organizations to focus on new beneficiaries rather than long term dependency of recipients.

## ***Socio-Economic Outcomes and Structural Impact***

The plan creates income and, at the same time, social capital, family autonomy and gender inclusion via its execution. According to the United Nations Development Programme (2025), women working from home are more economically involved and have a greater ability to exert influence inside the family. It is important to possess a small or medium-sized firm because it breaks the cycle of poverty that is handed down from generation to generation by enhancing long-term family stability, education, and nutrition (World Bank, 2025).

This steady formalization of a firm facilitates that company to integrate into formal value chains and marketplaces, hence reducing the company's dependency on the informal economy and resulting in a rise in income (State Bank of Pakistan, 2024). The ZPEM's main social and economic purpose is to help individuals move from assistance money to active participation in society.

## ***Governance, Monitoring, and the Five-Year Graduation Strategy***

### ***Mentorship-Based SME Monitoring***

The Zakat-Based Productive Model (ZPEM) does not see monitoring as a punitive control or surveillance but as a structured mentoring that facilitates economic sustainability during the critical transition period, which usually lasts for the first six to eighteen months a firm is in operation. This stage is critical as small firms often operate under anticipated operational constraints such as unpredictable cash flow, poor inventory management, suboptimal pricing strategies, absence of record keeping, and restricted access to the market (International Labor Organization, 2024). If early help is not supplied in response to these concerns, they can potentially lead to the loss of the firm and a return to poverty.

Monitoring teams are not meant to undertake investigations; on the contrary they are technical mentors and business advisors. This group performs a number of functions that include basic accounting assistance, establishing market and supplier linkages, providing guidance on quality control and working with relevant training and entrepreneurial groups such as SMEDA (SMEDA, n.d.). The monitoring system provides continuous feedback that improves the design of the program and enhances the effectiveness of its implementation for successive cohorts, in addition to giving

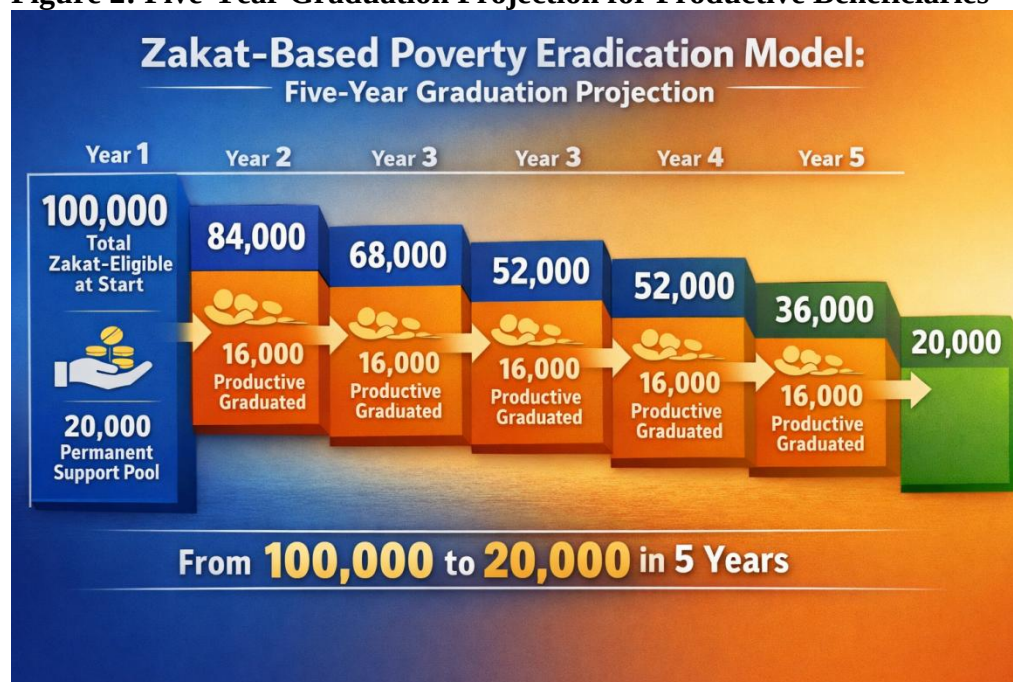
direct assistance.

## ***Graduation Criteria and the Five-Year Exit Strategy***

The second key element in the governance structure of the firm is the completion of the graduation process. Prior to the distribution of zakat payments, a set of explicit, established and objectively measured criteria are devised. A family is qualified for graduation after it has consistently shown that their income is over the zakat qualifying levels for a continuous verification period, which is generally a full year. Upon completion of the verification procedure, the residence is deemed economically independent and is officially removed from the list of beneficiaries.

As demonstrated in Figure 2, the graduation process simplifies the reallocation of zakat resources to households who are now eligible for such resources. It also lowers the risk of long-term dependency and guarantees the intended integrity is maintained. It implements a systematic five-year cohort-based transition approach to reduce the zakat reliance of subsequent generations via the provision of stable income from small and medium-sized businesses. This will be done via the execution of the technique. This is especially evident in the trajectory of the model graduation, which marks the implementation of the strategy.

**Figure 2: Five-Year Graduation Projection for Productive Beneficiaries**



Source: Author's Construction

The structured horizon of five years is the central temporal logic of the notion. Earlier cohorts are being phased out of the program when their income levels meet zakat eligibility conditions and their businesses stabilize. Each year a fresh set of families who are eligible for the program are admitted into the program depending on their eligibility. This cohort-based strategy ensures that socioeconomic gains are created incrementally, rather than people perpetually moving between support and

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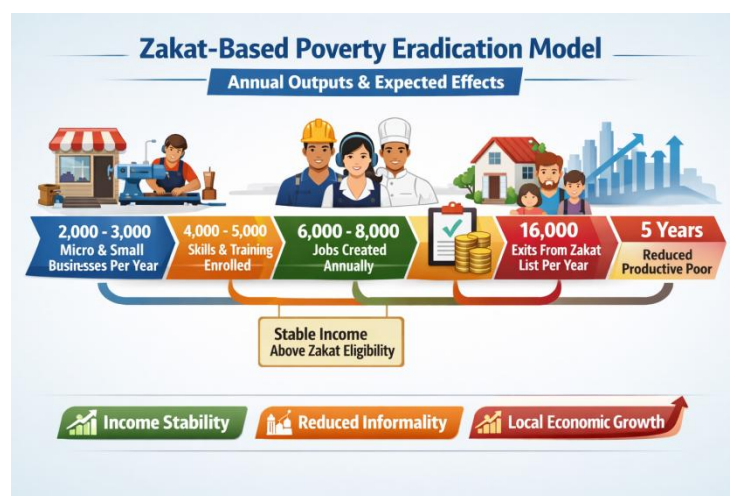
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dependence.

However, the contributor base may increase when the families that successfully complete their education have regular income and become potential zakat payers. This means that over time the pool of beneficiaries shrinks, while the pool of contributors may rise. This produces a self-perpetuating cycle of redistribution and economic inclusion that might go on its own without further assistance. The annual results of the model, the socio-economic impacts over a 5-year period, the company growth targets and graduation paths are displayed in Figure 3.

**Figure 3: Annual Outputs of the Zakat-Based Productive Model**



Source: Author's Construction

The district transforms zakat from a paradigm of continuous dependence on relief to a systematic framework of entrepreneurs and wage producers through the progressive transformation of the beneficiary population by the construction of small and medium-sized companies, company ownership and the creation of employment. This is achieved via the creation of enterprises which re-shape the recipient population. Poverty is not just alleviated or temporarily shifted about, but alleviated in future generations, as income grows steadily and assets are built up. This is because in the future generation's poverty is minimized.

This exit strategy should be implemented by policymakers because it transforms zakat, from an indefinite budgetary duty, into a time-bound instrument for socioeconomic growth. The idea is to progressively reduce poverty via company development and transfer of ownership. The strategy is not just aimed at managing structural dependency. The ultimate objective is to greatly decrease structural reliance at the district level.

### **Non-Working Beneficiaries: Permanent Social Support within Islamic Justice**

To be successful a strategy for the eradication of poverty must differentiate between economic inactivity as a result of constraints in skills or opportunities and incapacity as a product of long-term impairments. The ZPEM does not expect all zakat recipients to work or become involved in small and medium-sized companies (SMEs). Islamic

justice acknowledges that certain people are not able to participate in productive economic activity, for example, the elderly, severely disabled, those with chronic diseases, or those with persistent cognitive or physical limitations. This is the case regardless of the talents or capital that these folks have. To refuse support to these organizations or to see them as economic actors who have failed would be unethical and illegal. Both of these would be deemed unethical behaviors.

The Qur'an (9:60) has mentioned the principles of zakat as a right which is guaranteed to be given to the impoverished populations. This privilege is recognized by the Islamic law. Therefore, the objective of the zakat is not to offer temporary financial assistance but to give a long term dignified means of livelihood to the unemployed. This includes providing basic consumer assistance, secure housing, assistance with health care, and monthly payments that are provided unconditionally and without regard to production. In this way these policies maintain dignity, but also provide vital socio-economic order.

The financing is handled using official and open-minded Bait-ul-Mal techniques which include the keeping of written records, verification of eligibility and the formation of management structures. This helps to always safeguard vulnerable groups, to reduce exploitation and to avoid politicization. Accountability is maintained throughout the process.

Also, the system may be made more successful by eliminating beneficiaries that do not contribute to the productive small and medium-sized firm sector. If performance measures are a valid representation of cohorts that are genuinely economically engaged then the integrity of metrics like firm survival, job creation, income growth and graduation rates are safeguarded. It also prohibits the use of funds for policy goals that are essentially unrelated, so that zakat can be a welfare guarantee for those who are permanently unable to engage in productive work and a development tool for economically active families.

### **The Institutional Imperative: Zakat, Bait-ul-Mal, and SME Coordination**

Success with the Zakat-Based Productive Model (ZPEM) requires strong institutional governance, centralized administration and coordinated economic planning. Islamic law (Qur'an, 9:60) makes it a community obligation, essential to government responsibility and the maintenance of social order, rather than a private or voluntary act of charity. Zakat is a compulsory duty. It is important for the preservation of social order. When zakat is distributed through private channels, informal distribution or individual preferences, it becomes untraceable, loses coherence and cannot achieve organized socio-economic objectives like the formation of small and medium-sized enterprises (SMEs) and the reduction of poverty in the long term.

The Qur'an (Qur'an, 9:60) assigns the responsibility for the administration of zakat to particular officials of the government, thereby making it an institutional rather than a private function. This notion was kept and preserved throughout the early Islamic period. Abu Bakr created a collecting centralized process in order to maintain the social and distributive purpose of zakat. This was done according to the saying of the Prophet (peace be upon him) that zakat must remain tied up with the governmental authority and the economic structure of the community. This historical background shows that the zakat administration should be via organized government and not by

individual individuals' choice.

From a socioeconomic standpoint, zakat's private and dispersed distribution is likely to favour donor preferences over rigorous planning, and prioritise instant pleasure over long-term viability. While it may be of some benefit in the near term, it is not able to encourage the establishment of organized small and medium-sized companies (SMEs) or long-term strategies for poverty reduction since it does not allow for continuing targeting, monitoring or graduation. This often implies that assistance is superfluous and removed from major change.

The Baitul Mal, on the other hand, has the responsibility to provide the institutional framework for the coherent implementation of policies. Centralized administration facilitates communication with financial institutions and groups working for the development of small and medium companies (SMEs) such as SMEDA, which helps in integration with overall economic planning. This greatly facilitates the development of structured graduation procedures, accurate recording, monitoring and focused planning. This institutional coherence allows Zakat to serve as a coherent development instrument connected to employment policy, the promotion of small and medium-sized companies (SMEs) and social protection programs. Zakat then was a collection of scattered humanitarian offerings.

This gap is particularly crucial for people who set policy. Zakat must be consolidated in order to coordinate the development of small and medium-sized firms (SMEs), to prepare for the labor market, and for long-term projects to alleviate poverty. In the absence of institutional coordination, zakat is purely distributive; nevertheless, when there is coordination, it undergoes a different transformation.

## **Historical Evidence That Zakat Can Eliminate Poverty**

There are various concerns that zakat is not able to eradicate poverty on a structural basis. The arguments are more grounded on contemporary feelings than historical facts. One of the strongest instances throughout Islamic history is the adoption of organized zakat collection, regulated administration and successful zakat utilization. The examples indicate how poverty was reduced in a dramatic way and in some instances was almost eliminated. This was a deliberate shift from relief distribution to economic Empowerment via asset support and sufficiency instead of extraordinary wealth which affected the outcomes. Institutional integrity also drove this transition.

In the early Islamic administrations, zakat was not a measure of short-term assistance, but an instrument for the promotion of socioeconomic advancement. Abu Bakr pushed very vigorously for the institutionalization of zakat, making sure that it remained a state managed requirement, rather than an individual contribution that was split. This was done as per the instruction of the Prophet (peace be upon him). As a consequence, this gave rise to the belief that the economic and social benefit of zakat needs to be handled at the central level to be sustained.

However, there is a more elaborate historical narrative under the reign of Umar ibn Abd al-Aziz. The authorities, as historical sources show, had trouble finding suitable receivers because of the amount of zakat collected and the good organization of it. Excess money was used for asset assistance and debt reduction, allowing a number of families to satisfy their immediate survival requirements. The purpose of using zakat under this system was to provide support, and to alleviate poverty and promote long-

term socioeconomic progress. That is an example of a system that was deployed. From the history above it can be seen that the success of zakat is mostly influenced by governance systems, strict enforcement and policy objectives, not economic realities. Zakat is a single instrument of economic power attached to productive capacity and it enables fundamental transformation and the rewards are more than immediate aid. These occurrences provide as empirical evidence for the ZPEM in the context of current policy planning. When zakat is institutionalized, centrally administered and focused on excellent initiatives such as asset transfer and SME development, poverty becomes a solved socioeconomic issue rather than an immutable condition.

## **Socio-Economic and Macroeconomic Effects of the Zakat-Based Productive Model**

### ***Socio-Economic and Macroeconomic Effects***

Therefore, the Zakat-Based Productive Model (ZPEM) has macroeconomic and social ramifications beyond the well-being of the families, therefore, the change of economic paradigms at the local level. The goal is to apply zakat not as a payment based on consumption, but the creation of small and medium-sized enterprises (SMEs) and the transfer of the complete ownership. This influences income distribution, productive capacity, employment and the dynamics of the fiscal system at the district level.

The strategy offers to improve the employment prospects via the involvement of the work force of small and medium-sized enterprises (SMEs). According to the projections of International Labour Organization for 2024, the financial assistance would help in creation of 6,000-8,000 direct employment opportunities per year by supporting about 2,000-3,000 micro and small firms, mostly in unorganized and underemployed sector of labor market. This is sustainable employment development produced locally. It does not need public sector recruitment, massive infrastructure projects, or inflows of money from other nations (World Bank, 2024).

The second advantage of productive zakat is that it may help to foster price stability by improving the capacity of the supply side. There are other local enterprises providing other products and services, such as food processing, retailing, tailoring, repair services and some minor construction works. This increases supply of the market. On the other hand, it helps to relieve inflationary pressures and local shortages (World Bank, 2024). This is not like the cash transfers that enhance demand but not output.

Thirdly, the strategy encourages the formalization of small and medium companies (SMEs) that will increase the GDP and generate income. Each company contributes to the development of local multiplier effects, wage distribution and value creation via household spending and supplier networks (World Bank, 2025). According to State Bank of Pakistan (2024) and SMEDA (n.d.), the increase in the official tax base is due to the establishment and registration of firms and transformation of districts from aid dependency to self-sustaining economic activity. Finally, zakat ownership in small and medium companies (SMEs) contributes to wealth development and minimizes inequality. The recipient families become self-sufficient firm operators rather than consumers. This, in turn, enables people to save money, invest in their education, improve their living situations and even have the opportunity to become zakat

beneficiaries. Such structural transformation would reduce long-term dependency and improve economic inclusion and social mobility (World Bank, 2025).

The aim is to promote gender inclusion, by encouraging women to work in home-based and community-based sectors such as tailoring, food processing, teaching and handicrafts. This, in turn, increases women's income, bargaining power and decision-making authority, eliminating structural disparities not effectively addressed by cash-dependent assistance programs (UNDP, 2025).

The findings imply that productive zakat may play a complementary role in development via integrating humanitarian aims with economic transformation through small and medium sized companies (SMEs). It therefore favors employment, price stability, fiscal soundness and long term social and economic mobility.

### ***Transition from Poverty Alleviation to Welfare Augmentation***

The Zakat-Based Productive Model (ZPEM) is aimed at building a dynamic and sustainable system to fulfil the needs of dynamic social and economic conditions. Our fundamental objective is to reduce poverty by means of ownership of small and medium-sized enterprises (SMEs), skills development and job creation and not by continued support. The pool of eligible consumers diminishes as future generations stop relying on zakat, creating the institutional and financial capability for a gradual shift of zakat into larger welfare and development tasks. This comes from the expanding movement of zakat to other endeavors.

A large part of the money received via zakat is spent at the beginning on important projects for the fight against poverty, creating jobs and maintaining incomes. The basic support requirements will decrease as the treatments advance and this will ultimately pave the way for a proportionate reallocation of the resources to more advanced social and developmental needs. At an advanced level, zakat may be utilized for initiatives including establishing community infrastructure such as vocational centres, support facilities for small and medium sized enterprises, continuing education, preventative health care and marriage aid for low-income families. These applications are in accordance with the basic aims of zakat, which are to promote human dignity and social welfare. They also underline the growing developmental role of zakat following the eradication of poverty.

There have been certain historical events that might be linked with this change in Islamic administration. The natural result of the times of good administration of zakat, notably in the time of Umar ibn Abd al-Aziz, was an evolution in the flow of resources from basic help to more significant welfare projects. This was because the poverty levels went down over these decades. An overabundance of resources and the relaxing of the qualifying rules helped. This is an illustration of the approach where the new role of zakat appears with the reduction in the level of structural poverty.

This decade-long perspective illustrates that zakat is not just a static welfare expenditure but a strategic development instrument in the grasp of policymakers. Productive zakat has converted the periodic duty of zakat into a systematic tool for personal growth and community resilience, promoting long-term financial efficiency, social stability and economic inclusion. The change was caused by the lucrative zakat investment.

## Conclusion

This study developed the Zakat-Based Productive Model (ZPEM) that transform Islamic social financing from the distribution of short-term relief to structural socio-economic change by facilitating the creation of small and medium-sized enterprises (SMEs), transfer of ownership and creation of employment opportunities. The aim is to stimulate the expansion of the small and medium-sized business (SME) sector and the development of zakat as a kind of development capital at the district level. It is based on the historical legal consensus of the four Sunni madhabs and the concept of productive tamlik.

The study utilizes the case of Lower Dir District to illustrate how a zakat pool of one billion Pakistani rupees could be utilized to fund two to three thousand businesses and six to eight thousand employment opportunities on an annual basis and also allow for a five year cohort-based graduation system that systematically reduces structural poverty while simultaneously supporting local economic activity. Both of these results are shown in the paper.

The plan makes a distinction between beneficiaries who are not working and who are receiving ongoing maintenance assistance from Baitul Mal, and beneficiaries who are working and who gain full control of small and medium-sized enterprises (SMEs) that generate revenue in accordance with Islamic distributive justice (Qur'an, 9:60). The administration of Umar ibn 'Abd al-'Aziz is the historical example to show that the reduction of poverty via zakat is feasible with strict institutional control. This demonstrates that the administration has been carried out.

The strategy yields a variety of benefits such as increased employment, development of supply-side variables, reduced inflationary pressure, improved income distribution, increased involvement of women and maintained fiscal efficiency at the macro level. On the other hand, Zakat is required to be centrally handled by Baitul Mal and to be coordinated with the SME development groups such as SMEDA in order to be successful. For zakat to be effective, zakat has to be channeled in this way to satisfy this very important institutional necessity.

The current practices in Khyber Pakhtunkhwa, where zakat is mostly provided as financial assistance in the face of documented government failures, underscore the need of transitioning away from relief to structural transformation. The ZPEM provides a systematic, reproducible, and institutionally consistent approach to the eradication of poverty via productive participation. It is also based on the Islamic law. This concept should be confirmed experimentally in the future via the deployment of pilot projects at the district level, small and medium business monitoring systems, beneficiary longitudinal studies and impact evaluations according to national social protection and labor market legislation. All these techniques are experimental or quasi-experimental in character.

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