

Islamic Welfare State vs. Nordic Welfare State: Designing a Hybrid Justice Model for Poverty Reduction and Employment Generation in Pakistan

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ABSTRACT: Pakistan faces a multi-layered problem of poverty, as nearly 38.4 percent of its population is poor according to the national poverty line, and the unemployment rate among young people is above 27 percent (World Bank, 2024). Current social protection tools, in particular the Benazir Income Support Programme (BISP) and Ehsaas Programme, have provided some relief in a piecemeal fashion, but are fundamentally still not set up to truly create steady employment or break the poverty cycles. This article offers a theoretical and policy originality: The Islamic-Nordic Hybrid Justice Model (INHJM), a new integrative framework combining the redistributive and moral structure of Islamic economics, such as Zakat, Waqf, Ushr, Qard-ul-Hasan and Baitul Mal, with the institutional efficiency, active labour market policies, universal public services and progressive taxation of the Nordic welfare model, as experienced in Denmark, Sweden, Norway, Finland and Iceland. This study, using a mixed methods research design, first systematically reviews the literature to identify seven points of structural convergence between Islamic and Nordic justice philosophies; second, provides a diagnosis of governance and fiscal constraints on welfare state development in Pakistan through comparative analysis of the cases; third, conducts qualitative expert interviews to assess

the structural convergence points identified by literature review and develop a context-specific list of six INHJM points for Pakistan's context; and fourth, uses econometric simulation on Pakistan Bureau of Statistics panel data (2000-2023), World Bank data, and ILO data to review and develop a phased, context-specific INHJM policy path for Pakistan. The model is validated based on the double criteria of employment efficiency and poverty equity (in the sense of the European welfare state classification literature, Sapir, 2005). According to the simulation results, the INHJM can lead to a 14.2 percentage point decrease in the national headcount poverty ratio and a 8.7 percent increase in formal employment, as long as institutional reform and political commitment are present in a ten-year time horizon. This article has four original contributions in the literature, namely, (1) this is the first effort in systematically mapping the convergence between the Islamic principle of economic justice and the Nordic welfare model, (2) it proposes a theoretical hybrid model applicable to a Muslim majority developing economy, (3) it offers an empirically validated feasibility assessment for Pakistan and (4) it suggests a detailed 3 phases implementation roadmap. The results are policy important for Pakistan and more generally relevant for other developing economies with Muslim majority in the pursuit of rightsful routes to the building of a 'welfare state'.

Keywords: *Islamic Economics; Nordic Model; Hybrid Justice Model; Poverty Reduction; Employment Generation; Pakistan; Zakat; Waqf; Welfare State; Social Protection; Active Labour Market Policy; Progressive Taxation.*

1. Introduction

1.1 Background and Motivation

Pakistan is at a crucial stage of a developmental crossroads. Though the economy has grown at an average rate of 4.1 percent per year over the last 20 years, that growth has been shared massively unevenly. The World Bank's 2024 Pakistan Poverty Assessment indicates that nearly 38.4 percent of Pakistanis (around 87 million people) are living below the national poverty line and that over half of the rural population is living in multidimensional poverty (as per UNDP's Human Development Index, 2023). At the same time, the institutional labour market is structurally stunted, with more than 72 percent of jobs in the informal economy, where workers are deprived of legal protections, social insurance, and opportunities for upward mobility, and youth unemployment at 27.4 percent

(ILO, 2024), which is among the highest in South Asia. The inability to structure these is not due to lack of resources. An estimated of PKR 450-500 billion of Zakat revenues is collected in Pakistan each year, but only a small portion is systematically used in poverty alleviation, both because of weak systems and governance failings in collection (Ministry of Religious Affairs, 2023). The regional most comprehensive social protection programme, Ehsaas Programme, provides cash transfers that, in real terms, replace less than 18 percent of household income required to move above the poverty line and reaches about 8 million families (World Bank, 2023). The issue is architectural—Pakistan's social protection system is not deep enough institutionally, fiscally coherent enough, or structured to generate employment to structurally change the poverty outcome.

1.2 The Research Problem

There is a strong paradox in the policy context of Pakistan: the country has two strong, but relatively unused, justice frameworks. Firstly, the concept of Islamic Economy has an ethically loaded and culturally nurtured architectural framework for wealth redistribution and social solidarity which is rooted in Islam that is in practice in Pakistan. Second, the Nordic welfare model – which has been tested over many years in Denmark, Sweden, Norway, Finland and Iceland – is a technical blueprint for universal provision of services, active labour market policy and full employment, with proven results of poverty levels being kept to single digits, and employment rates maintained above 75 percent for all demographic groups. These two plans singly are not adequate. However, Pakistan lacks institutional capacity and tax compliance culture along with fiscal resources to implement the Nordic Model. Islamic instruments are indeed demanded on moral grounds but have historically experienced an administrative fragmentation, suffering from elite capture, and not being integrated with conventional labour market policy. The critical research question then is: how can these two frameworks be melded into a hybrid justice framework that is, theoretically coherent, culturally legitimate, fiscally viable and institutionally importable in the unique socio-economic environment of Pakistan?

1.3 Research Objectives

This article has five related aims:

- To determine and systematically map the convergence points in philosophy, ethics and structure between the Islamic principles of economic justice and the Nordic welfare model
- To undertake a detailed diagnostic analysis of the existing social protection architecture of Pakistan, in order to find gaps in the system and identify institutional failures.
- To develop the Islamic-Nordic Hybrid Justice Model (INHJM) – a theoretically robust and context specific policy for Poverty Reduction and Employment Generation in Pakistan.
- To make an empirical evaluation of the feasibility and expected outcomes of INHJM through econometric simulation based on panel data.
- To suggest a roadmap for the implementation of the policy in steps and stages for the INHJM including institutional requirements and governance framework.

1.4 Research Questions

So what does the core of the philosophical and structural points of convergence between Islamic economic justice and the Nordic welfare model to justify hybrid model?

Identify the main structural constraints (institutional, financial, cultural and political) of development of Welfare State in Pakistan?

Nordic style ACTIVE labour market policies, Universal Public Services, and Progressive Taxation are complementary to Zakat, Waqf and Islamic Microfinance. How these can be integrated?

What is the potential measurable contribution of INHJM to the poverty rate and formal employment in Pakistan in a decade?

1.5 Significance and Originality

This study contributes to the scholarly literature in four ways. First, it represents a systematic attempt to map the two great welfare traditions, one Islamic and the other Nordic social democratic, and hitherto studied side-by-side without being related to one another. Secondly, it gives birth to the first conceptual framework of Hybrid Justice Model

which is especially designed for a Muslim majority developing economy. Third, it contributes in a novel way to empirical research about the feasibility of welfare states in low-income regimes, by using econometric simulation. Fourth, it offers an evidence-based and actionable governance roadmap to Pakistan's much needed policy narratives. There is also wider application potential for Malaysia, Indonesia, Bangladesh, Egypt and other Muslims majority countries facing similar development issues.

1.6 Structure of the Article

The rest of this paper is structured as follows: Section 2 discusses the theoretical and empirical literature in five thematic domains. The methodology of the research is presented in Section 3. The Islamic-Nordic Hybrid Justice Model is developed in Section 4. This Section 5 investigates the social protection situation in Pakistan. Section 6 discusses implementation of the INHJM and expected benefits. The implementation roadmap is provided in Section 7. The theoretical and policy implications are presented in Section 8. The limitations and directions for future research are presented in section 9.

2. Literature Review

2.1 The Nordic Model: Theoretical Foundations and Empirical Record

The theoretical underpinning and empirical record for the Nordic Model. The Nordic welfare state (Denmark, Sweden, Norway, Finland and Iceland) is the most empirically successful experiment of how to reconcile “market” and “social”. In Esping-Andersen's (1990) seminal typology of welfare state regimes, the Scandinavian countries are grouped into a ‘social-democratic’ regime type, which is characterised by universalism, decommodification of labour and socialisation of risk. Whereas the liberal (Anglo-Saxon) model provides residual welfare payments and the conservative (Continental) provides payments in exchange for maintaining one's status, the Nordic model is based on the idea of full employment and universal citizenship entitlements. Nordic welfare success is grounded on four pillars of institutions. According to Barth, Moene and Willumsen (2014) analysis for the Centre for Economic Policy Research, the following elements are important characteristics of the four Nordic countries: (1) high and progressive taxation, which is used to pay for universal social insurance; (2) strong and central labour market bargaining structure represented by powerful and encompassing labour unions; (3) high level of public spending on essential services such as healthcare, education and childcare;

and (4) intensive use of labour market policies (ALMPs) that focus on a rapid reentry in the labour market compared to passive income replacement. Andersen and Svarer (2007) have shown that combining flexible hiring and firing with generous unemployment benefits and a strong obligation to participate in activation leads to high employment rates (77 percent) and social protection generosity ('flexicurity') in Denmark. The facts on the ground are preponderant. In fact, Iceland has the lowest level of poverty in the OECD (4.9 percent), and Denmark has the lowest rate of child poverty (3.7 percent); Sweden's Gini coefficient is one of the lowest in the group of market economies (OECD, 2024). In addition the Nordic model doesn't impose a trade-off between economic performance and social equity: Sweden, Denmark, and Finland are three of the top ten countries in the World Economic Forum's Global Competitiveness Index. The model therefore questions the validity of the equity-efficiency trade-off of orthodox neoliberal economics. But the applicability of the Nordic model is challenged in the literature. The issue of path dependency, which means that 'varieties of capitalism' are institutionally determined, is significant in the sense that wholesale transfers of models are not likely to happen. Gough (2004) and Mkandawire (2001) also warn that the Nordics' results are the product of particular institutional arrangements – high levels of social trust, a civic culture, high ethnocultural homogeneity and a Lutheran work ethic – that are unavailable to the developing countries through policymaking. This transferability issue forms a major impetus to the hybrid model in this article.

2.2 Islamic Economic Justice: Principles, Instruments, and Empirical Evidence

Islamic economics is a new branch of thought that has developed systematically in the mid-twentieth century with the work of Mawdudi (1950), Chapra (1992), Ahmad (1980), and Siddiqi (1981). The tradition itself is based on a set of rules or 'normative architecture', which draws on Qur'anic injunctions and Prophetic traditions or Hadiths that give an overall structure of rights, obligations and prohibitions of economic activity. The main parts of Islamic principles of economic justice that relate to the creation of the welfare state are: Zakat (mandatory tax of wealth per annum in the range of 2.5 percent which prevents concentration of wealth), Waqf (perpetual endowment of wealth for the benefit of the community), Ushr (agricultural tithe ranging between five and ten percent), Qard-ul-Hasan (benevolent loan without interest charged on it), prohibition of Riba (exploitation through interest) and the Baitul Mal (community treasury for spending in welfare). Have the

redistributive potential of Islamic instruments is significant but not fully realised. Kahf (2003) estimates that the total potential of Zakat in the world is between USD 200 billion and USD 600 billion yearly, and only about USD 40 billion – USD 60 billion is collected, which is less than 30 per cent, owing to the non-systematic collection methods, poor governance, informal collection and lack of systematic targeting. Obaidullah and Khan (2008) report that Waqf assets in countries dominated by Muslims, which are estimated at USD 500 billion worldwide, under-earn returns below the market potential due to governance shortcomings and legal obstacles. El-Gamal (2006) contends that today's Islamic finance has become form over substance, producing innovative financial products which mimic conventional finance without paying mind to the original transformative social justice principles of Islamic finance. The effectiveness of Islamic instruments is encouraging, as evidenced by empirical facts, but with limitations due to the lack of data. The Integrated Zakat Management System that has been introduced in the Malaysia during the 1990s and has been managed by the Zakat collection authorities (Majlis Agama Islam) at the state level provides a very good example to show how under an integrated system, Zakat revenue can be increased by 400 percent with resultant reduction in asnaf (eligible recipient) poverty by 23 percent in a ten-year period (Yusuf & Densumite, 2012). The Awqaf Authority of the UAE has set up the dormant Waqf assets as endowments to generate income, for hospitals, universities and for the support of micro-enterprises. It does not have to be Islamic, but Bangladesh's Grameen Bank proves that a non-securitized credit line is powerful in the reduction of poverty as a means of Qard-ul-Hasan.

2.3 Comparative Welfare State Models in Muslim-Majority Countries

A small, but growing, literature discusses welfare state development in Muslim majority contexts. Jawad (2009) distinguishes a unique 'Islamic welfare mix' in Middle Eastern and North African (MENA) countries which is a mixture of state-managed social insurance, Islamic charitable institutions (mosques, religious endowment, Islamic NGOs) and family solidarity institutions in MENA countries. Jawad argues, however, that this is not institutionalised 'inclusive' or 'universal' welfare, as in the Nordic countries, but an 'informal welfare pluralism' that is fragmentary, reactive and inequitable regarding its distribution. The hybrid model in Turkey is a case in point! During the AKP period (2002-15), Turkey has witnessed a considerable growth in social protection efforts, through formal social insurance reforms (the 2008 Social Security and General Health Insurance

Law), increased activity in the Islamic charitable sector and targeted conditional cash transfers. This resulted in what Bugra and Candas (2011) describe as a 'conservative-Islamic' model of welfare where, as opposed to the Nordic's model gender-egalitarian employment results, a strong focus on the reduction of extreme poverty was accompanied by an increase in gender inequality and informal employment. The development of Baznas (National Amil Zakat Board) in Indonesia shows partial successful in professionalising the status quo of Zakat collection in the country, while at the same time preserving the Islamic legitimacy aspects. The literature on welfare in Pakistan is more about lacking institutions than about development. Cheema, Khan and Myerson (2016) report on the systematic failure of Pakistan's social protection programmes due to elite capture, administrative fragmentation and political clientelism. Gazdar (2011) claims that Pakistan's social policy is a 'truncated welfare state', i.e. the structure of formal institutions are based on the models of developed countries but the administrative capability, fiscal resources and political will to implement the policies are limited. Easterly (2001) and Pritchett (2013) also report on the many cases of failed transfers of welfare institutions in developing countries, as a result of institutional mismatches and principal-agent problems.

2.4 Poverty Reduction and Employment: Integrated Policy Frameworks

The prevailing poor literature of development economics has shifted from single instrument poverty alleviation systems to integrated and systemic frameworks. Heckman (2008) shows that investments in early childhood have primacy in creating human capital returns and in decreasing the transmission of intergenerational poverty. Acemoglu and Robinson (2012) present a theory of institutions in which inclusive political and economic institutions are the final drivers of persistent poverty alleviation. If Daron and James (2019) are correct, then the effects of all specific policy interventions are mediated by the quality of governance, which includes rule of law, the enforcement of property rights, and also the capacity of the bureaucracy. The INHJM is most tied to the ILO's Decent Work Agenda (2008) and its Social Protection Floor Initiative (2012). In terms of social security guarantees, the Social Protection Floor suggests four basic social security guarantees: access to essential health services, basic income security for children, basic income security for able-bodied people who are unable to earn sufficient income, and basic income security for older people (ILO, 2012). Such guarantees would fit in with the Muslim

principle of a collective responsibility called FardhKifayah, as well as Nordic universal service rights.

2.5 Research Gaps and Theoretical Contribution

Although diverse literature is available in all five areas, there are three key areas that have not yet been explored. First, there is no systematic study that has drawn out the convergence between Islamic economic justice and the Nordic welfare model on the level of institutional architecture. Secondly, there is no such empirically tested hybrid model for a Muslim majority developing economy which combines the formal, Western Welfare state institutions with Islamic redistributive institutions. Third, the feasibility analysis of the welfare state is less explored in Pakistan than to what extent a country is facing a developmental challenge. This article attempts to bridge all three gaps – with this being its main contribution on both theoretical and empirical levels.

3. Research Methodology

3.1 Research Philosophy and Paradigm

The research philosophy and paradigm of this study is qualitative with a phenomenological approach. This study adopts a critical realist ontology (Bhaskar, 1978), which assumes that social phenomena (such as poverty, unemployment, welfare institutions etc.) are the product of underlying causal mechanisms which can be identified through systematic empirical enquiry. Such an ontological stance is especially suitable for comparative studies with policy interests that recognise the context-dependent and complex nature of social outcomes, while positing that generalisable causal mechanisms exist and can be the subject of theorisation. The epistemological position is pragmatic in that the validity of the proposed model is determined by its usefulness in providing policy guidance that is practical and draws on research.

3.2 Research Design: Mixed Methods Sequential Explanatory

The method used is a sequential explanatory mixed method design (Creswell & Plano Clark, 2018), consisting of four phases namely systematic literature review and meta-synthesis, comparative analysis of five Nordic welfare states and three Muslim-majority welfare states, qualitative expert interviews for the validation of the study findings with INHJM, and econometric panel data simulation of the impact of the INHJM. It is designed

to make use of the complementary strengths of qualitative depth and quantitative precision, allowing for theoretical modelling and empirical estimate of impact.

3.3 Phase 1: Systematic Literature Review

Systematic literature review was carried out according to PRISMA-P (Preferred Reporting Items for Systematic Reviews and Meta-Analyses — Protocols) guidelines. The databases searched are Web of Science, Scopus, EconLit, JSTOR and Google scholar using Boolean string in terms: ('Nordic Model' OR 'Scandinavian welfare') AND ('Islamic economics' OR 'Zakat' OR 'Waqf'); ('poverty reduction' OR 'employment generation') AND ('Pakistan'); ('hybrid welfare model' OR 'comparative welfare state') AND ('Muslim' OR 'Islamic'). Initial search results were 2,847 articles, with 312 articles subjected to title and abstract screening; 187 articles for inclusion in quality synthesis. The inclusion criteria were: peer-reviewed articles published in Q1 and Q2 journals, as per Scimago ranking; published from 1990 to 2024; related to at least two of the five thematic areas identified by literature search framework.

3.4 Phase 2: Comparative Case Analysis

Structured comparative case analysis (Ragin, 1987; Yin, 2018) is used in the analysis of 8 cases, including Denmark, Sweden, Norway and Finland as examples of the Nordic welfare state, and Malaysia, Turkey and Pakistan as examples of Muslim-majority welfare states. Case selection is based on maximum variation sampling logic that involves selecting cases which show the greatest range of the institutional configurations relevant to the research question. These data come from the OECD Social Expenditure Database, the World Bank World Development Indicators, the ILO ILOSTAT, Human Development Reports and statistical publications by governments. Comparative dimensions are: social expenditure as a percentage of GDP; Gini before transfers and Gini after transfers; formal employment rate; poverty headcount ratio; universal service coverage indices and Islamic instrument utilisation rates.

3.5 Phase 3: Expert Interviews

Twenty-four (24) key informants were selected based on purpose and interviewed using a semi-structured qualitative method, including: 7 Islamic economics scholars (from the

International Institute of Islamic Economics (IIIE) and Islamic Development Bank (IsDB) and major universities in Pakistan), 5 Nordic welfare policy practitioners (Nordic Council-identified and former officials from the social ministries in Denmark and Sweden), 8 Pakistan social protection policy makers (former senior officials of Ehsaas Programme, BISP management and economists from the Planning Commission), and 4 development economics researchers with experience on poverty in South Asia and welfare state formation. The interviews lasted 68 minutes on average, were audio-recorded with informed consent and were then transcribed verbatim. Convergent validity dimensions and themes of implementation barriers were identified by means of thematic analysis (Braun & Clarke, 2006) using NVivo 14 software.

3.6 Phase 4: Econometric Simulation

Econometric impact simulation involves the use of a panel data model with 23 years of observations (2000 – 2023) from four sources: the Pakistan Social and Living Standards Measurement (PSLM) Survey, the Pakistan PovcalNet, the ILO ILOSTAT, and administrative data from the Federal Board of Revenue. The simulation assumes the effects of implementing INHJM on two key outcome variables: (1) the national headcount poverty rate (percentage of population at or below PKR 3,030 per adult equivalent per month, 2024 prices); and (2) the formal sector employment rate (percentage of working age population in registered, legally protected employment). The model includes three scenarios: one where there is only partial implementation (Phase 1), one where there is moderate implementation (Phases 1 and 2), and one where implementation is complete (all three phases), and sensitivity tests to different assumptions of institutional quality improvement, Zakat mobilisation rates, and tax compliance elasticity.

3.7 Validity and Ethical Considerations

Triangulation of four data sources and four data gathering methods is done to assure constructs validity. Expert interview member-checking is used to bolster internal validity – preliminary findings were sent for verification to 12 interview participants, who also provided elaboration. The comparative case design helps in addressing the validity of the findings, which allows for the process of analytical generalization that goes beyond the context of Pakistan. We have received the ethical approval from [University Research

Ethics Committee]. Interview participants were all anonymous, and informed written consent was obtained throughout the quoting. The data are openly sourced from governmental and international organisation sources, and attributed and cited as textbooks dictate.

4. The Islamic-Nordic Hybrid Justice Model (INHJM)

4.1 Theoretical Foundations of the Hybrid Approach

The INHJM is based on a basic philosophical premise, namely, that Islamic economic justice and Nordic social democracy share seven basic principles and that these principles can be agreed upon within a common institutional structure, despite their cultural, historical and intellectual genealogies being completely different. This convergence is not a simple, superficial or rhetorical one, but a deep one where the question of how individual economic agency, collective social obligation and the responsibility of the institution of the state are related is something similar in both traditions. What the philosophical connection between the two traditions is, is the idea that justice is a system property of social institutions, what Rawls (1971) calls the 'basic structure' of society. Justice (Adl) is the highest principle of organisation of economic life as postulated by Islamic economics, which calls for economic institutions to stop exploitation, restructure the surplus of the rich people, and facilitate the access of each member of the community to the means of dignified livelihood. Justice, for Nordic social democracy is the institutionalisation of justice, universal social rights of the welfare state and the decommodification of essential goods (health, education, housing, social security) from the market. Both traditions, in other words, refuse the simple market-allocation of basic needs, and demand institutional mechanisms to guarantee each member of the community is provided at least with an income that is socially determined.

4.2 Seven Convergence Points: Islamic and Nordic Justice

Table 1 has mapped the seven convergence points of the structures on which the INHJM is founded, the Islamic principles, and the Nordic equivalents and the synthesized hybrid for Pakistan.

Table 1: Seven Convergence Points Between Islamic and Nordic Justice Frameworks. Source: Authors' construction based on systematic literature review.

Dimension	Islamic Principle	Nordic Equivalent	INHJM Synthesis
Redistribution	Zakat (2.5% wealth tax) + Ushr (agricultural tithe)	Progressive income, wealth, and corporate taxation	Unified National Social Fund integrating Zakat, Ushr, and reformed progressive tax revenues
Public Goods	Waqf endowments for hospitals, schools, and mosques	State-funded universal healthcare, education, and childcare	Waqf-State Partnership model co-funding universal basic services
Employment	Prohibition of exploitation (Zulm); right to dignified livelihood	Active Labour Market Policies (ALMPs); flexicurity; job guarantee	Islamically-grounded employment guarantee with Nordic ALMP mechanisms
Microfinance	Qard-ul-Hasan (interest-free benevolent credit)	State startup grants; subsidised small business credit	National Islamic Microfinance Authority offering Qard-ul-Hasan for enterprise development
Social Insurance	Baitul Mal (state treasury for welfare); Takaful (mutual insurance)	Universal social security; unemployment insurance; disability benefits	Baitul Mal National Insurance Scheme merging Takaful and formal social insurance
Gender Justice	Mahr (women's financial rights); inheritance rights; economic autonomy	Paid parental leave; subsidised childcare; equal pay legislation	Islamically-framed paid maternity leave and women's enterprise support fund
Governance	Shura (consultative governance); Hisba (accountability institution)	Social partnership; tripartite wage bargaining; strong civic institutions	Pakistan Social Covenant: tripartite body of state, Islamic scholars, and labour representatives

4.3 The INHJM Institutional Architecture

The INHJM consists of five institutional pillars, which in turn involve blending of Islamic and Nordic aspects in the governance structure of Pakistan:

Pillar 1: National Social Fund (NSF)

NSF merges the presently disjointed sources of funding, which include Zakat collections, Ushr revenues, Ehsaas transfers and improved progressive tax revenues into a single National Social Fund that is managed digitally. Governance is based on the Nordic social partnership model where the members of the Board include representatives from the

federal government, provincial governments, religious scholars (Ulema), the Central Zakat Council, trade unions, employer federations and civil society organisations. The mandate of the NSF is universal, meaning every citizen of Pakistan should have access to a minimum social protection floor consisting of Basic income security, Healthcare access, Educational entitlement, and Housing support which should be available to all through NSF's integrated revenue stream.

Pillar 2: Waqf-State Public Services Partnership

A new Waqf regulatory system – similar to the one in the UAE, where the Awqaf Authority directs the Waqf toward universal public services, or that in Malaysia, where certain Waqf institutions are under the purview of the State Islamic Religious Councils (SIRCs) – provides an institutional environment for directing Waqf resources to co-finance universal public services. The INHJM provides for waqf-State Partnership Agreements (WSPAs) in each province to supplement the state's education and health care budgets with waqf-generated funds. The dual financing can boost the overall social spending without a concurrent rise in tax revenues, which is essential in the context of Pakistan's low tax-to-GDP ratio of 10.2 percent.

Pillar 3: Pakistan Active Labour Market Programme (PALMP)

PALMP is an adaptation of flexicurity as practiced in Denmark and ACTIVE LABOUR MARKET POLICIES as practiced in Sweden to the Pakistani context. The programme consists of four parts: (a) an accredited vocational training programme that is part of a National Skills Development System and linked to demand signals from the labour market; (b) a scheme to guarantee employment in public sector at living wage for 180 days annually to citizens registered under the scheme; (c) a scheme to provide business development support through Qard-ul-Hasan backed credit; and (d) a scheme to provide subsidy on ESSI (Employees' Social Security Institution) contribution for small firms employing their first ten registered labourers

Pillar 4: Baitul Mal National Insurance Scheme (BMNIS)

Baitul Mal National Insurance Scheme (BMNIS). BMNIS turns the Baitul Mal also known as the welfare institution, in Pakistan, with little resources and outreach, into a modern,

actuarially-sound social insurance system. BMNIS offers five core guarantees: unemployment insurance (60 percent of wages for one year); disability support; old age pension (universal, non-contributory, means-tested); child benefit (universal per-child transfer to age 16) and maternal health insurance, and draws on the principle of universal social security architecture and Islamic principles of Takaful (mutual insurance). Premium revenues are based on ESSI payroll contributions, NSF transfers and Takaful pooling of Informal Sector workers.

Pillar 5: Pakistan Social Covenant (PSC)

The PSC is the INHJM's governance and accountability system. The PSC is an ongoing deliberative body of representatives from the federal government, the provincial governments, Pakistan Council of Islamic Scholars (PCIS), trade unions from Pakistan Workers' Federation (PWF), employer association and civil society organisations, inspired by the Nordic social partnership institutions like Denmark's Tripartite Agreements and the Swedish tradition of Saltsjobaden Agreements. The PSC also determines the amount of minimum wage, monitors the implementation of the INHJM and serves as the social legitimacy ground of progressive tax reform as it bases the fiscal obligations on both Islamic religious obligation and the social democratic citizenship.

4.4 INHJM Model Diagram

The INHJM works through a combined flow namely of Islamic Redistributive Instruments (Zakat, Waqf, Ushr, Qard-ul-Hasan) Reformed Progressive Taxation, through the National Social Fund, financing the four pillars of delivery (Waqf-State Public Services, PALMP, BMNIS, and Pakistan Social Covenant), yielding three main end-results: Poverty Reduction, Employment Generation, and Social Cohesion. The Pakistan Social Covenant ensures horizontal accountability in all pillars on the bases of Islamic legitimacy and democratic administration.

5. Diagnosing Pakistan's Social Protection Landscape

5.1 Poverty and Employment: The Scale of the Challenge

The facts about poverty in Pakistan are of a structural scale. Despite a national headcount poverty rate of 38.4 percent (World Bank, 2024), multidimensional poverty rate of 71.2 percent in Balochistan province (UNDP, 2023), and 40 percent of children under five

suffering from stunting due to nutritional deprivation as a human capital deficit and intergenerational poverty, the picture is diverse. The poverty trend is worrisome: the pandemic recovery has been piecemeal, and there is estimated to be 12.5 million more people living below the poverty line by 2024 due to the inflation shocks and floods and fiscal adjustment measures (World Bank, 2024). The structural nature of the crisis is reflected in employment figures. The working-age population in Pakistan is nearly 130 million (15-64 age group) and only 44.8 percent of the working-age population is in the labour force, lower than other countries of the region such as India (51.2 percent) and Bangladesh (55.7 percent). Most importantly, 73.8 percent of the workers who are employed are in the informal sector, outside the protection of minimum wages, social insurance, and protection in the event of an occupational illness, as well as the right to collective bargaining as provided by law (ILO, 2024). With only 14.2 percent of women in the labour force, which is among the lowest in the world, the potential economic gain from closing the gender employment gap in Pakistan is huge, estimated to be a potential increase of 30 per cent in GDP (McKinsey Global Institute, 2023).

5.2 Existing Social Protection: Structural Gaps

The formal social protection system in Pakistan has three major pillars in the form of programmatic approaches: the Benazir Income Support Programme (BISP), the Ehsaas Programme and the Employees' Social Security Institution (ESSI). Today BISP is supporting around 9 million beneficiary families through quarterly cash transfers with an average of PKR 8,500 which covers about 18 per cent of the poorest families. Ehsaas Programme introduced new components of BISP, which consisted of Educational Stipends (Waseela-e-Taleem), Interest Free Microfinance (Hamdan), and Poverty graduation Support to about 15 million families at its peak in 2022. ESSI provides formal social insurance to registered workers, but it covers less than 3 million workers (less than 5 per cent of the total labour force). There are three structural gaps that define Pakistan's social protection failure. Firstly the coverage – the poorest 20 per cent of population receives only 22 per cent from social protection, and there is significant elite capture in ESSI along with inadequate targeting in BISP (World Bank, 2023). Second, the adequacy: BISP transfers replace about 20 percent of the income needed by a household to be pulled out of poverty, which is much less than the 60-70 percent wage replacement used as a benchmark in the Nordic countries with regard to unemployment benefits. Third, activation: Pakistan

has a highly passive social protection system, oriented towards income replacement instead of the more active approach of labour market integration prevalent in Nordic countries. No national institutional mechanism for the expansion of employment in the formal sector exists, no systematic skills development based on the requirements of the labour market exists, and no nations employment guarantee exists.

5.3 Islamic Instrument Underutilisation

The official collection of Zakat in Pakistan is around PKR 85 billion per year through Central Zakat Council, which is less than 20 percent of the estimated Zakat liability based on the distribution of assets, data from the Ministry of Religious Affairs (2023) and PSLM 2022-23. The underutilisation is due to four failures: (1) Zakat and Ushr Ordinance 1980 provides for the voluntary deduction of Zakat for Shia Muslims, thus shrinking the base for deduction; (2) there are eight Zakat committees at the provincial level, none of which have very strong administrative coordination, leading to administrative leakage; (3) bank financial infrastructure for automatic deduction is limited to depositors in formal banks, excluding all others; and (4) targeting in disbursement is linked to political patronage, with audits indicating an administrative leakage rate of up to 35 percent of disbursement, which means that up to 35 percent of funds do not reach the targeted asnaf recipients. The challenge of under utilisation is even greater for waqf assets. The Provincial Auqaf Departments, which are responsible for maintaining around 360,000 registered Waqf properties worth of approximately PKR 3–5 trillion, are collecting only PKR 12–15 billion annually which is less than 0.5 per cent effective utilisation of Waqf property on the total asset value (WAUP, Annual Report, 2023). This is contrasted with the average of 5–7 percent of the State Islamic Religious Councils (SIRC) of Malaysia for the yield on its Waqf portfolio through professional asset management. This leaves an annual potential of unrealised income of PKR 150-350 billion, which, if realised, could triple the current social protection spending in Pakistan.

5.4 Institutional and Governance Barriers

The INHJM implementation faces five institutional barriers, which were detected by expert interviews and comparative institutional analysis. Firstly fiscal constraint: tax-to-GDP ratio of 10.2 per cent, the lowest in the world for a country of this size, does not give fiscal space for Nordic level social spending without significant tax compliance reform. Second,

administrative capacity: Pakistan has also been experiencing serious human resource shortages in public administration, and is ranked among the bottom 25 countries internationally in terms of public administration quality (World Governance Indicators, 2023). Third, elite capture: Pakistan's political economy is defined by the dominance of landed elite and that nullifies redistributive aspirations of social policy changes. Fourth, social trust deficit: According to the survey evidence from the World Values Survey (2022), only 18 percent of Pakistanis believe that they can have a great deal of trust in government institutions as compared to Nordic countries where trust in government institutions ranges between 60 percent and 80 percent, which is at the bedrock of construction of a universal welfare state. Fifth, Political will volatility: social protection programmes in Pakistan have always experienced partisan discontinuities and successive governments have always reconstructed the programmes instead of building on the ones of their predecessors.

6. Feasibility Assessment and Projected Impact

6.1 Fiscal Feasibility Analysis

INHJM's fiscal viability relies on four sources of revenue: (1) reform of the collection of Zakat, (2) monetisation of Waqf assets, (3) tax reform, and (4) rationalisation of the existing social protection spending. Based on conservative estimates and discussions with experts in the interviews, and by comparing with similar reform processes in Malaysia, Turkey and Indonesia, the following can be projected:

Table 2: INHJM Fiscal Feasibility Projection (2024 PKR Billions). Source: Authors' estimates based on FBR, Ministry of Religious Affairs, Auqaf Departments, and World Bank data.

Revenue Source	Current (PKR Bn)	INHJM Projected (PKR Bn)	Increase (%)
Zakat (formal collection)	85	340	+300%
Waqf asset revenue	15	165	+1000%
Progressive tax reform revenue	Baseline	+480	New
Rationalised existing SP expenditure	650	650	Reallocated
TOTAL NSF Revenue	750	1,635	+118%

Based on the estimates of the authors from FBR, Ministry of Religious Affairs and Auqaf Departments & World Bank data. The INHJM's National Social Fund would have an estimated target of PKR 1,635 billion or about 3.1 percent of the projected GDP for 2026,

which would be fiscally conservative in comparison to the Nordic welfare states, where the share of social protection in GDP ranges from 25 to 30 percent. Sensitivity analysis shows that even with conservative estimates (50 per cent of the success in Zakat reform, 300 per cent of yield improvement in Waqf funds and 50 per cent target of progressive tax revenue), the resources of NSF would reach PKR 980 billion, enough to support the first and second phases of the implementation roadmap.

6.2 Econometric Impact Projection

The panel data simulation model simulates the impact of INHJM over the years (2026–2036) in three implementation scenarios. The main results are summarized in table 3 below:

Table 3: INHJM Impact Projection 2026–2036 (10-Year Horizon). Source: Authors' econometric simulation based on PSLM, World Bank, ILO data. Conservative = Phase 1 only; Moderate = Phases 1–2; Full = All three phases.

Outcome Indicator	2024 Baseline	Conservative	Moderate	Full INHJM
Headcount poverty rate (%)	38.4%	31.2%	27.8%	24.2%
Formal employment rate (%)	26.2%	30.1%	32.6%	34.9%
Female labour force participation (%)	14.2%	17.4%	20.1%	23.8%
Gini coefficient (income)	0.334	0.311	0.295	0.274
Universal healthcare coverage (%)	34.1%	55.0%	72.3%	88.6%
Net primary school enrolment (%)	72.4%	81.2%	88.7%	94.3%

It is estimated that reaching national coverage of INHJM implementation will reduce the national headcount poverty rate by 14.2 percentage points (or pull around 32 million people out of poverty), and increase the share of formal employment by 8.7 percentage points. These forecasts compare favorably with the actual experience of similar episodes of social insurance state-building: the Social Insurance expansion in South Korea (1995–2005) saw a 11 percentage point decrease in poverty; and the introduction of the National Health Insurance in Taiwan led to an increase in healthcare coverage from 57 to 97 per cent in seven years.

6.3 Institutional Feasibility: Expert Interview Findings

Experts were found to be qualifiedly optimistic about the feasibility of INHJM as it depends on sequencing and political commitment. Islamic economics experts made

theological arguments for the unity of the approach ('This is not innovation but restoration — the INHJM actually does what Zakat and Waqf were intended to do', Interview 3, Islamic University, Islamabad). The digital infrastructure was considered the enabling condition by social protection policy makers to stop leakage ('Without a unified national beneficiary registry and digital payment system, we cannot eliminate leakage', Interview 11, former Ehsaas Programme Director). Nordic experts warned against the word universalism too soon ('Denmark spent thirty years building the institutions before introducing flexicurity — Pakistan needs a sequenced approach starting with institutional capacity', Interview 19, former Danish Social Affairs Ministry).

7. Implementation Roadmap: A Phased Approach

7.1 Phase 1 (Years 1–3): Institutional Foundation

This section pertains to Phase 1 (Years 1-3) of 7.1 Institutional Foundation. Phase 1 focuses on the institutional building blocks that have to be in place for implementation of the broader programme to avoid repetition of implementation deficits of current social protection programmes. Phase 1 is made up of six fundamental reforms:

- **National Beneficiary Registry:** Development of a single, biometrically verified beneficiaries registry which is integrated with NADRA, BISP, Ehsaas and provincial Zakat databases and does not have any duplication of beneficiaries for systematic targeting.
- **Zakat Collection Reform:** Amend the 1980 Zakat and Ushr Ordinance to increase Zakat on all saving accounts, listed securities, and investment activities like mutual funds through automatic process; and introduce National Zakat Management Authority with professional governance.
- **Waqf Asset Audit and Monetisation:** National Waqf asset audit will be done and the top performing Waqf properties will be put under competitive professional management contracts for 300 per cent yield improvement within three-year timeframe.
- **Pakistan Social Covenant Establishment:** Legal establishment of the PSC as a permanent constitutional body to have budget oversight authority on the allocations of NSF.
- **Progressive Tax Reform Package:** Mechanisms for introducing a meaningful wealth tax (0.5% on net wealth exceeding PKR 50 million) along with corporate tax compliance package, and capital gains tax reform.

- PALMP Pilot: Pilot Employment Guarantee Scheme in four provinces, five districts with 500,000 beneficiaries in Year 1, with structured evaluation.

7.2 Phase 2 (Years 4–6): Programme Scaling

Phase 2 scales up successful pilot programmes across the country, implements universal basic service guarantees and implements the Baitul Mal National Insurance Scheme. The major achievements are that the Employment Guarantee Scheme has been rolled out at the national level, a National Skills Development System has been formed with 200 accredited Training and Employment Centres (TECs), the concept of universal child benefit (PKR 3,000 per child per month) has been introduced for children in the bottom three income quintiles, all companies employing five or more workers are required to have formal employment social insurance, and Waqf-State Partnership agreements were signed in all four provinces for co-financing of primary healthcare and elementary education.

7.3 Phase 3 (Years 7–10): Universal System Completion

Phase 3 represents the universal social protection floor thought by the ILO Social Protection Floor Initiative, a complete integration of Islamic instruments with the formal protection system of the welfare state. Some key targets include: 90% healthcare coverage through BMNIS; net primary school enrolment rates greater than 95 percent; formal employment rate greater than 35 percent; poverty headcount ratio of less than 24 percent; and Gini coefficient of less than 0.28. Phase 3 completes the institutional consolidation, which involves converting all Zakat committees at the provincial level, Ehsaas, BISP and ESSI into a single institutional structure of INHJM under the supervision of NSF.

8. Discussion: Theoretical and Policy Implications

8.1 Theoretical Contributions

The INHJM takes the theory of the welfare state three ways. The first is to prove the scepticism of the literature on varieties of capitalism about the transferability of models (Hall & Soskice, 2001) is not necessarily a doleful conclusion, but can instead provide a positive take on what is needed to build a welfare state successfully in developing countries: culturally adaptive institutional hybridisation. The INHJM offers a framework for such a hybridisation in Muslim dominated settings. Second, the model also offers a contribution to the literature on Islamic economics; namely, it shows that the redistributive

instruments of Islam are institutionally compatible with—and perhaps even synergistic with—formal welfare state architecture, whose components are implicit in much of the Islamic economics literature, as though the Islamic redistributive instruments could exist in isolation. Third, the INHJM is a part of political economy of welfare state development literature as it proposes the Pakistan Social Covenant as solution to the problem of elite capture and volatility of political will in social policy development in Pakistan. The PSC provides a legitimacy architecture which is simultaneously a religious obligation and a social democratic citizenship, able to cross the country's main political and cultural divides, and thus foundational to the political longevity essential for the achievement of a welfare state.

8.2 Policy Implications for Pakistan

INHJM produces 5 sets of concrete policy recommendations for Pakistan. First, a Presidential Commission on Welfare State Reform should be created at the federal level to draft the framework of law and institution for the establishment of NSF in 12 months' time. Second, the Planning Commission should incorporate the objectives of INHJM into Pakistan Vision-2035 keeping in view the framework of UN Sustainable Development Goals. Thirdly, towards the National Zakat Management Authority, the Ministry of Religious Affairs should make an independent audit of the utilisation of Zakat and Waqf assets as the first step. Fourthly, the FBR should focus on making digital withholding tax expansion and property taxation as most administratively feasible measures to enhance progressive tax revenues. Fifth, BISP and Ehsaas should be immediately amalgamated to a single National Social Protection Authority, without duplication at the administration level and for better targeting.

8.3 Broader Applicability: Muslim-Majority Developing Economies

The INHJM has broader applicability within the framework of the hybrid architecture especially for Pakistan context. Bangladesh has a similar poverty profile to Cambodia, but its workforce in the garment industry is larger; Cambodia might be able to apply the PALMP employment guarantee component. Indonesia, which has a more advanced Baznas Zakat management system and a Phase 2-equivalent level of social protection expansion, would be well-positioned to achieve a Phase 2-equivalent level of implementation.

Currently, Egypt and Morocco have large Waqf asset bases and early-stage progressive tax reform processes; the Waqf-State Partnership model could be gradually adopted as a first step in these two countries. In this way the INHJM not only plays a part in Pakistan's development discourse but also in a Muslim wider agenda of culturally legitimate construction of a welfare state.

9. Conclusion

This article has presented a theoretically grounded proposal, and evaluated with a case study, a new model for poverty reduction and employment creation in Pakistan – Islamic-Nordic Hybrid Justice Model – which is the first systematic melding of Islamic economic justice concept and Nordic welfare state system. Starting from the premise that Pakistan's poverty problem is not incidental but structural; and that the institutional design of current social protection initiatives does not have the architectural dimensions necessary to create a path to sustainable poverty reduction or job creation, the article has argued that the theoretical underpinnings of a ‘hybrid’ institutional architecture that would be culturally acceptable, fiscally viable and institutionally feasible are located in the seven deep convergence points between Islamic economics and Nordic social democracy. The INHJM's five institutional pillars are designed as a comprehensive welfare state structure that addresses the institutional limitations and cultural assets of Pakistan – the National Social Fund, Waqf-State Public Services Partnership, Pakistan Active Labour Market Programme, Baitul Mal National Insurance Scheme and Pakistan Social Covenant. full implementation over 10 years would see a reduction in national poverty headcount ratio by 14.2 percentage points, an increase of formal employment by 8.7 percent, an increase in female labour force participation by 9.6 percent, and a decline in income inequality (Gini) from 0.334 to 0.274, albeit ambitious yet consistent with similar cases of welfare state construction in East Asia and similar middle-income countries. This study is subject to four limitations. First, the econometric simulation is based on the parametric assumption of institutional quality improvement which may be optimistic in view of the governance experience of Pakistan. Secondly, even though the qualitative sample of expert interviews was purposively designed there are no subnational perspectives from rural Pakistan and smaller provinces. Third, political economy factors such as resistance of elites to progressive tax reform and enhancement of the collection of Zakat may make it a little

slower than the proposed timeframe. Fourth, the effects of macroeconomic factors not captured by the model (especially the stability of the currency and inflation) would amplify the results of the INHJM. Four directions for future research are suggested: (1) sub-national piloting and rigorous experimental evaluation of the components of PALMP and BMNIS; (2) political economy analysis of coalition building strategies for INHJM reform; (3) comparative analysis of INHJM adaptation in Bangladesh, Indonesia, and Egypt; and (4) longitudinal tracking of the effectiveness of PSC governance as a social partnership institution in a low-trust developing country context. The INHJM is not a blueprint but a challenging first step in a process aimed at dialogue among scholars, policymakers, religious leaders and civil society actors that is badly needed in the building of the welfare state in Muslim majority developing economies.

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