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## Impact of Zakat Distribution on Poor and Needy Recipients: An Analysis in Kelantan, Malaysia

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### ABSTRACT

This study attempts to examine the effectiveness of monthly zakat distribution as a mechanism to poverty reduction in the state of Kelantan, Malaysia. The target population of this study is the poor and needy zakat recipient of the Kelantan Zakat Department, (MAIK). 481 respondents were randomly selected from Kelantan's zakat recipient's list from the poor and needy category for ten districts of Kelantan. In depth interview were used to gather the data. For analysing the data, descriptive statistics were applied. Results indicate that zakat elasticity is about 0.46, suggesting that, holding other variables constant, if the zakat distribution goes up by 1 per cent, the monthly income goes up by 0.46 per cent. Further, the male coefficient is about 0.15, meaning that the male gender receives about 0.15 per cent more income compare to female gender, again holding other variables constant. Thus, zakat distribution is significant in determining the income distribution among this group and bringing positive effect towards improving the income distribution of this group. Thus, these statistical measures have proven the positive role of zakat in reducing poverty among the Poor and needy and once again prove our result from previous poverty measures.

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## INTRODUCTION

Poverty generally means deprivation of wellbeing, there are many factors that cause it and it has various approaches to explain the concept. Poverty results from the way a society's economic, political and social systems are organized. These systems create processes that interact with each other and produce deprivation among a group of people (World Bank, 2000). Though the concept of poverty has evolved from derivation of material needs, education and health to a broader idea of vulnerability, exposure to risk, noiselessness and powerlessness, in poverty research, more attention is paid to facts and definitions and relatively less emphasis is given to its cause and strategies to overcome the poverty problems (Wilson, 1996). However, one has to comprehend the underlying cause of poverty in order to arrive at policies and strategies to resolve the problem (UNDP, 2003).

In solving the Muslim's poverty and economic problems, Islam had brought a method called Zakat. Through this method, Muslims are obligated to pay a certain "tax", called zakat, on their accumulated wealth. The money collected from this zakat is to be distributed among the poor and needy. One of the most important principles of Islam is that all things belong to Allah S.W.T, and that wealth is therefore held by human beings in trust. Our wealth is purified by setting aside a proportion for those in need, and, like the pruning of plants, this cutting back balances and encourages new growth in our wealth (M. Faisol *et al*, 2010). The institutions of zakat are among several instruments instituted by Islam to combat and enhance welfare in the society. Zakat also helps generate a flow of funds and recruit the necessary manpower. The word zakat means growth, cleanness and purity in Arabic (Qardawi, 1986). Zakat also play its role as a fiscal mechanism, zakat performs some of the major functions of modern public finance, which deals with social security entitlements, social assistance grants for childcare, food subsidy, education, health care, housing, and public transportation in a welfare state (Muhammad Ridhwan, 2012). It separates public welfare expenditures from other budgetary items and puts the burden of meeting the economic welfare needs of the society where it belongs. Unlike tax levied by the government for the services provided to tax payers on a quid pro quo basis, the Quran and Sunnah (the way of life prescribed as normative for Muslims on the basis of the teachings and practices of Islamic

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prophet Muhammad), irrespective of the economic conditions of the society, determine zakat and its heads of expenditure.

Besides that, zakat creates a balanced growth cycle. When a certain percentage of one's wealth is spent annually over the foregoing eight categories as prescribed in the Quran, zakat has a significant economic impact on society in Malaysia. Income support provided to the poor and needy would result in a measured increase of the money supply in the economy causing upward shift in demand for goods and services (Johari, *F et al.*, 2007). To support this upward shift in the demand for basic necessities of life such as food, clothing and shelter, the production facilities would gradually expand and begin to absorb the idle capital. In order to support the increased production, the economy would generate more jobs and new employment opportunities. This added employment in turn would generate more demand for goods and services, more room for additional investments, and finally, the growth cycle based on balance consumption would contribute to a balance economic growth (Patmawati, 2006). With that, *fiqh* or the understanding of Islamic Jurisprudence (in this case is practical zakat in social welfare fund) is the continuous practises and should response to any changes that reflex to solve the current problem and lifestyle of a dynamic society (Johari, *F et al.* 2010).

## MATERIAL AND METHOD

The state of Kelantan has been selected as a study area providing the primary source of data for this research. The reason why Kelantan has been chosen is that despite zakat department having disbursed an increasing amount of expenditure annually on the poor and needy, yet the number of poor and needy households is increasing. The trend leads us to wonder whilst zakat distribution should reduce the number of poor and needy, the reality seems to be otherwise. There are ten districts of Kelantan, namely Kota Bharu, Pasir Mas, Tumpat, Bachok, Pasir Putih, Tanah Merah, Kuala Krai, Gua Musang, Machang and Jeli;. In Kelantan, 95.3 per cent of the population is Muslim (Kelantan Economic Report, 2008). Respondents for this study are selected from MAIK zakat recipients list of the poor and needy category, which is the target population. The first criteria for the respondent selection are those who have been receiving the zakat from MAIK more than one year. With the cooperation and assistant of the zakat officer of MAIK, the survey encompassed the entire ten districts of Kelantan. Sample of the study are 481 households (8.4 per cent) of the total population of 5710 poor and needy households in Kelantan.

### Data Collection:

In order to collect the primary data, a set of questionnaire is used as a survey module for this study. The questionnaire is used to investigate; What is the total income of the poor household before zakat was distributed? How much does zakat assistance that they get? and; Besides zakat assistant, is there any other type of assistance that they get from other poverty eradication agency? Pilot test was carried out in Pasir Putih district prior to the actual fieldwork, with the following objectives:

- i. To ensure that the questions are understood and answerable by the respondent.
- ii. To estimate the time needed to interview one respondent. This is important in order to estimate the time and financial budget of the actual fieldwork so that the right number of field enumerators will be employed.
- iii. To estimate possibilities of 'non-responsive' respondents, in order to decide the right sample size and be prepared to overcome such problem.

Household unit has become the unit of observation for this study. A household may be either a one-person household or a multi-person household. The households can be defined as an arrangement where all the activities and cooperation centre round the members living in the same household. The head of household/family regardless of sex is considered as the respondents. Each household/family is registered zakat recipient under the poor and needy category. In certain exceptional cases, some other responsible member of the family (usually the wife) will be used as a respondent to replace the absentee head (usually the husband) of the household or the family.

### Model Determination:

The determinants of family income included in this model are Size, Age, Gender and District. In this study, we create functional form to determine correlation between dependent variable and independent variables. Here, we stated the model specification following (Noel Blisard and J. Micheal Harris, 2002).

$$\text{Income}_i = f(\text{Size}_i, \text{Age}_i, \text{Gender}_i, \text{Districts}_i)$$

Where:

Income <sub>i</sub>	=	Income of the poor percapita
Size <sub>i</sub>	=	House-hold size
Age <sub>i</sub>	=	Age of the house-hold head

Gender <sub>i</sub>	=	Dummy variable for male gender of the house-hold head
District <sub>i</sub>	=	Dummy variable for the various district

Then we make some alteration by including zakat variable as an independent variable in order to see the correlation between income and zakat. So the model will be:

$$\text{Income}_i = f(\text{Size}_i, \text{Age}_i, \text{Gender}_i, \text{Districts}_i, \text{Zakat}_i)$$

Where: Zakat<sub>i</sub> = Amount of zakat received

We then transform the actual functional form into logarithmic form which clearly stated as follows:

$$\ln \text{Income}_i = \beta_0 + \beta_1 \ln \text{Size}_i + \beta_2 \ln \text{Age}_i + \beta_3 \text{Zakat}_i + \beta_4 \text{Gender}_i + \beta_5 \text{DB}_i + \beta_6 \text{DGM}_i + \beta_7 \text{DJ}_i + \beta_8 \text{DKK}_i + \beta_9 \text{DM}_i + \beta_{10} \text{DPM}_i + \beta_{11} \text{DPP}_i + \beta_{12} \text{DT}_i + \beta_{13} \text{DTM}_i + \varepsilon_i$$

Where:

Income <sub>i</sub>	=	Income of the poor after zakat distribution
Size <sub>i</sub>	=	House-hold size
Age <sub>i</sub>	=	Age of the house-hold head
Gender <sub>i</sub>	=	Dummy variable for male gender of the house-hold head
Zakat <sub>i</sub>	=	Amount of zakat received
DB	=	Dummy variable for Bachok,
DGM	=	Dummy variable for Gua Musang,
DJ	=	Dummy variable for Jeli,
DKK	=	Dummy variable for Kuala Krai,
DM	=	Dummy variable for Machang,
DPM	=	Dummy variable for Pasir Mas,
DPP	=	Dummy variable for Pasir Putih,
DT	=	Dummy variable for Tumpat,
DTM	=	Dummy variable for Tanah Merah,
$\varepsilon$	=	Error term for the model

The log model measures the percentage change. Therefore the models are invariant to the scale of the variables. The models also give a direct estimate of elasticity. For models with  $y > 0$ , the conditional distribution is often heteroskedastic or skewed, while  $\ln(y)$  is much less so. On top of that the distribution of  $\ln(y)$  is narrower, limiting the effect of outliers. The regression technique in this study will allow us to isolate and compare the influence of zakat and any demographic variable on household's poverty status, while holding other determining variables constant. Using this technique, we estimate the impact of demographic, age, size, gender and zakat distribution towards improving the income of the poor. By showing which characteristic have the largest impact on determine the income of the poor and how much does the impact give, we can identify household types that could merit special attention in designing strategies to increase the effectiveness of welfare enhancing programs.

Districts can provide us with the location of the poverty. This variable can be aggregated to small statistical areas, such as districts, to obtain more robust estimates of the percentage of households living below the poverty line. These poverty rates are then linked to a mapping program to produce a poverty map showing the spatial distribution of poverty. As for this study, the district of Kuala Krai is chosen as the dependant variable since it has the highest amount of poverty among districts in Kelantan.

Age of the household head is important for the policy maker to investigate the level of poverty among the society based on their early, productivity or retirement age. The urban elderly (above the age of retirement) face greater risk of being poor (Mok, T.Y. *et al.*, 2007). Ageing population is prone to distress in many developing countries. Longer life expectancy coupled with increasing medical cost and inadequate social support leads to an increase of the probability of falling into poverty. Age 41 to 56 is used as the variable because it represent the productive age.

Size of the household, show that there is considerable evidence of a strong negative correlation between household size and income (or consumption) per person in developing countries (Peter Lanjouw and Martin Ravallion, 1995). The existence of size economies in household consumption cautions against concluding that larger families tend to be poorer. Poor people tend to devote a high share of their budget to rival goods such as food. But certain goods (water taps, cooking utensils, firewood, clothing, and housing) do allow possibilities for sharing or bulk purchase such that the cost per person of a given standard of living is lower when individuals live together than apart. In this study, size of household 1 to 3 was added to the regression because they represent the worst income among other sizes of household in Kelantan.

According to the Socio Economic Status (SES) one of the most of representative variable in social study mostly on poverty is a shorthand expression for variables that enable the placement of persons, families,

households and aggregates such as statistical local areas, communities and cities in some hierarchical order, reflecting their ability to produce and consume the scarce and valued resources of society (Hauser & Warren, 1997). An examination previous research literature shows that a variety of variables have served as poverty measures, including parent income (Worley & Story, 1967); parent education (Stanfiel, 1973); number of siblings (Kerckhoff, 1975); gender of the household head (Mindy S. Crandall and Bruce A. Weber, 2004). Based on previous poverty studies such as (Jonathan Morduch, 2005), (Noel Blisard and J. Micheal Harris, 2002), (Deichmann, 1999), (Panupong Panudulkitti, 2007), and (Henninger, 1998), this study will use district, size, age and gender of the household head as the variable to investigate the worst group in terms of poverty incidence, extent and severity.

Analyses of the social study often include study about used a specific variables as statistical controls to enhance the credibility of inference. Thus in this study, variables that were used has its own purpose of representing the poverty. Male gender of the household head is used as the variable because of the male headed households received more zakat assistant compared to female headed households. Both the causes and outcomes of poverty are heavily engendered that women and girls have borne a greater share of the cost of economic transition.

### Results:

In the first part of this empirical study, we look at what has actually occurred to poverty incidence, extent and severity before and after zakat distribution for households with income no greater than the poverty line. Further, by using the same primary data from the Zakat Recipient Survey, we estimated the regression analysis in order to verify the factors that determined income distribution of these groups. By using family income model added with zakat variable we had found out that zakat had significant effect toward income distribution of these group. Hence, by using Eviews 5.0, we obtained the output in Table 1:

**Table 1:** Factors that Determine Income Distribution of the Poor

Dependent Variable: LOG(INCOME)				
Sample: 1 481				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.445220	0.607997	5.666512	0.0000
LOG(SIZE)	0.168543	0.054917	3.069043	0.0003 *
LOG(AGE)	-0.077225	0.101210	-0.763019	0.4458
LOG(ZAKAT)	0.457232	0.068381	6.686547	0.0000 *
GENDER	0.149849	0.034901	4.293534	0.0000 *
DB	0.050544	0.075583	0.668721	0.5040
DGM	-0.003335	0.083705	-0.039843	0.9682
DJ	-0.035742	0.083409	-0.428517	0.6685
DKB	-0.045418	0.069834	-0.650366	0.5158
DM	-0.042117	0.081355	-0.517700	0.6049
DPM	-0.058814	0.074164	-0.793022	0.4282
DPP	0.011197	0.077791	0.143938	0.8856
DT	0.030106	0.080148	0.375634	0.7074
DTM	-0.040804	0.084294	-0.484072	0.6286
R-squared	0.560655	F-statistic		42.38521
Adjusted R-squared	0.547427	Durbin-Watson stat		1.947238

\* Significant at 1%

The result from Table 1 shows that the value for Adjusted R-squared is 0.547. It means that 54.7% of the variation in dependant variable can explain the variation in independent variable. This value can be classified as a high value for Adjusted R-squared that use the cross section analysis. The Durbin-Watson value 1.947 presents that the regration result is free from a serious Autocorrelation problem. Table 1 also indicates that only zakat, size and gender (male) variables have a significant effect in determining the income distribution while age, and districts variables did not have any significant effect towards income distribution among the poor and needy. We can see that age, and districts variable is not statically significant. The zakat elasticity is about 0.46, suggesting that, holding other variables constant, if the zakat distribution goes up by 1 per cent, the monthly income goes up by 0.46 per cent. Further, the male coefficient is about 0.15, meaning that the male gender receives about 0.15 per cent more income compare to female gender, again holding other variables constant.

Size of the family is also one of the factors that can determine the family income level. Basically, for those who have a bigger family, they will have more source of income compare to a smaller family who mostly rely on one sources of income. From the table we can see that those who have bigger family size will receive about 0.16 more income compare to smaller sized family. This result has proven our poverty measures that those with 1 to 6 household members have the worst of poverty extent and poverty severity while zakat distribution did not give any effect on their poverty incidence. Besides that, household with a size of 10 and above has the highest

effect of zakat distribution in terms of reducing their incidence, extent and severity of poverty. For this group, zakat distribution has given maximum effect due to their mean income gap and poverty gap ratio that is exciding the Poverty Line Index (PLI).

The district variable did not show any significance toward the distribution of income to the poor and needy. For all the ten districts, the figure of probability did not show any significance holding other variables constant. The districts Gua Musang, Jeli, Kota Bharu, Machang, Pasir Mas and Tanah Merah shows a negative figure of coefficient while Bachok, Pasir Putih and Tumpat have a positive coefficient. Zakat, size and gender are significant in determining the factor of income distribution while the age and districts did not have any significant effect towards determine the income distribution of this group. Previous results of poverty measures indicate that zakat distribution has brought positive result in reducing poverty among poor and needy. Thus, zakat distribution is significant in determining the income distribution among this group and bringing positive effect towards improving the income distribution of this group. Thus, these statistical measures have proven the positive role of zakat in reducing poverty among the poor and needy and once again prove our result from previous poverty measures.

### **Discussion:**

Zakat distribution has a significant and positive effect towards improving income distribution for the poor and needy. The Zakat elasticity is 0.46, suggesting that, holding other variables constant, if zakat increased by 1 per cent, income will increase by 46 per cent. We can see that zakat distribution is given based on the size of income, meaning that the closer (higher) the amount of income of the family to the PLI, the amount of zakat distributed to the family will be lower. For example, a family with monthly income RM 700 will receive a lower amount of zakat assistance compare to family with monthly income RM 300. Or in other words, we can say that the amount of zakat assistant is given based on the monthly income of the family. The lower the income that they get, the higher amount of zakat assistant they will get and *vice versa*.

The application of zakat formulation is also an effective tool to reduce the incidence, extent and severity of poverty. The right allocation of zakat distribution i.e-the total zakat distributed is based on the size of households, can bring more effective result on reducing poverty and income gap of a family rather than distributing the zakat based on amount and omitting the size of households. Moreover with the current amount of zakat money collected, it is not impossible for MAIK to implement zakat distribution using this formula.

Focusing on short term i.e monthly zakat distribution, MAIK has to improve the current practice of zakat distribution. They must develop a system that can release the fuqara and masakin from poverty and avoid those who have the potential to become poor. A system that can prevent them from becoming poor rather than getting them out of poverty must be designed. For example, the current zakat distribution does not differentiate between the different needs among household head gender. Besides that, the current practice of zakat distribution that is implemented by MAIK does not entirely cover the needs of a family. For example, education assistant is only eligible for a family that has 3 and more schooling children; and lives in a rented house. This practice has denied the zakat education assistant that others (i.e; 2 schooling adult and live in their own house) need while at the same time, they are also among the fuqara and masakin in Kelantan.

This analysis suggests that to achieve maximum impact in reducing the sufferings of the poor with available resources, MAIK should reduce the poverty gap from the bottom up. Moreover, it may be more desirable to reduce poverty for a larger number of the poorest than to eliminate poverty for a smaller number of the poor. This will require a new method of zakat distribution. However, in any targeting effort, the challenge is to develop a feasible, accurate, and effective system to distribute the zakat.

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