

IMPACT OF ZAKAT AND OTHER SOCIO-ECONOMIC FACTORS ON POVERTY ALLEVIATION IN KANO STATE, NIGERIA

Maryam Magaji¹ and *Umar Aliyu Abubakar²

¹Department of Economics,
Ahmadu Bello University Zaria, Kaduna State

²Department of Economics,
Umar Musa Yar Adua University, Katsina, Katsina State

*Imamulmaslaha01@gmail.com

ABSTRACT

This study examined the impact of zakat on poverty with specific interest on some selected zakah communities. Data were obtained from 342 respondents which include 292 and 50 Zakat beneficiaries and Zakat administrators respectively. The data were collected based on a subsample of respondents among the poor, the needy, the debtors, reconciliation of heart, the Zakat administrators, and call to the way of Allah beneficiaries respectively. Logit regression was employed to measure the determinants of poverty among the beneficiaries. Findings from the logit regression revealed that beneficiaries with larger family size, beneficiaries that uses Zakat proceed for investment not for consumption and beneficiaries that reinvested their capital reduced the likelihood of the beneficiaries to be poor while access to formal education, affordability of at least three square meals a day, higher number of dependents in school, increases the likelihood of a beneficiary being poor. Therefore, the study concludes that Zakat had impacted positively on poverty status of the beneficiaries. The study recommends that the Zakat distribution should be replicated in more communities across the state. There is need to educate the Zakat beneficiaries on how to use their proceeds efficiently.

Key Words: Zakat, Poverty, Beneficiaries of Zakat Kano State, Nigeria

1. INTRODUCTION

In Islamic Economics, the belief in fairness and justice is in line with fair distribution of economic resource in mainstream economics. It is a discipline which is based on and derived from the Holy Quran and *Sunnah* of the Prophet Muhammad (S.A.W) (Akram and Afzal, 2014). The Holy Quran condemns exploitation, concentration or accumulation of wealth and arrogance of power and oppression

(Peerzade, 2012). Apart from this, Peerzade (2012) added that it also enjoins the faithful to fight against this evil and to help the weak and the oppressed and the best way of achieving this or to lessen the burden of the weak and the oppressed is through *Zakat*.

Zakat is one of the most fundamental obligations among the five pillars of Islam. It is ordained by Allah (SWT) which is collected from the rich at a rate of 2.5% and distributed to the 8 beneficiaries listed in Quran (9:60). These are the poor, the needy, the administrators, those whose heart are to be reconciled, to free the captives, wayfarer, the debtors and call to the way of Allah. *Zakat* systems comprise of the *Zakat* institution, *Zakat* collector, *Zakat* recipients (*asnafs*), and *zakat* payer (*muzakki*) (Ali and Saaid, 2016). *Zakat* has to be collected by the Muslim state with strong enforcement and this is in line with the Prophet Hadith narrated by Abu Hurairah on the reaction of Abubakar (R.A) to those who refused to pay *zakat* after the prophet (S.A.W.):

...I swear by Allah that I will certainly fight with those who make a distinction between prayer and zakat, for zakat is what is due from property. I swear by Allah that if they were to refuse me a rope of camel which they used to pay the Messenger of Allah, I will fight with them over the refusal of it. (See Sunan Abi Dawud 1556; Book 9, Hadith 1551)

However, the efficiency of its collection and distribution is only possible when the procedures and directive are adhered to. According to Musa (2014), government involvement in collection and distribution of *Zakat* prevent evasion of *Zakat*. It is being collected from variety of sources such as individuals as well as corporate companies (Lubis, Omar, Yacoob, Bilal & Dahlan, 2011).

Large part of the people in the world lives in condition of dire poverty. According to Muhammad (2014) in 2013, 767 million people, or 10.7 percent of the population, were living below the international poverty line of \$1.90 per person per day also half of the extreme poor live in Sub-Saharan Africa with 389 million people living on less than US\$1.90 a day in 2013 the level increases to 433 million in 2018, more than all the other regions combined (World Bank, 2016). In West Africa Human Poverty Index (HPI) increases from 28.22 in 2000 to 40.44 in 2006 (AFDB, 2016). Onisabi, (2011) added that approximately one person in three in the towns and one

in two in the rural areas cannot afford the expenditure needed to cover their basic needs in West Africa

In Nigeria existing literature has shown that the level of poverty is high. In 2020 the population of Nigeria was 206,139,589 and about 40% or 83 million Nigerians are in poverty which rose to 43% or 98 million Nigerians in 2021 (Statista, (2021); Stephen, (2021)). Most of the poor are located in the northern Nigerians. Kano State is among the state in the north state were poverty rate is high. It is one of the 36 states of the federation. The rate of poverty is high in the state representing 76.4 per cent of the population (Nigeria poverty profile, 2010). The trend of poverty rate in the state in 2010, 2013, 2015, 2017, and 2019 were 65.6%, 61.4%, 45.2%, 49.3% and 55.08% respectively (NBS 2019, World Bank 2016). These trends necessitate the attempt in this study to look at alternative approaches in the state of poverty reduction and propose the effectiveness of options available to enhance poverty reduction. This include the famous waqf, qardun hasan, etc in order to ensure more reduction of poverty. Furthermore, more enforcing bodies should be included in order to ensure a more efficient supervision in the distribution process of zakat.

2. LITERATURE REVIEW

2.1 Conceptual Literature Review

Zakkah is one of the most fundamental obligations among the five pillars of Islam. It is mentioned thirty times in the Quran, out of which it is associated with prayer in twenty- eight places, sometimes it is mentioned using the word *Sadaqah* for instance in surah No. 9, verses 58, 60, 74 and 103, in addition to two other verses (2: 267 and 9: 60) citing the obligation of *Zakkah* and its derivatives. (Kahf, 2002). *Zakkah* was ordered at Makkah, (Quran 23;4) but its specified amount for all categories of wealth was establish at Madina in the second year of Hijira. (Quran 9;103)

“Take *Sadaqah* (alms) from their wealth in order to purify them and sanctify them with it” [See Qur’an 9; At-Tawbah: Verse 103]

According to Chaudhry (2000) *zakat* is a tax collected by an Islamic state at a fixed rate from its Muslim citizen whose wealth increases to a certain amount called *Nisab*. Pickthall cited in Chaudhry, (2000) defines *Zakat* as “a tax at a fixed rate in proportion to worth of property collected from well to do and distributed among the

poor Muslims. Chaudhry and Pickthall definition are similar as they agree that *Zakat* is a levy upon the wealth of the rich and to be given to the poor.

Sabahuddin (2014) stated that “to define *zakat* accurately it should be seen in three aspects linguistically, theologically and legally. Linguistically, *zakat* means cleaning or purification of something from dirt or filth. While theologically, it is an obligatory duty on every Muslim or Muslimah processing wealth equal to, or exceeding the prescribed amount of *Nisab* (Minimum exemption limit). Legally, *zakat* means transfer of ownership of specific property to specific individuals under specific condition” such as gold, silver, mineral, animal and assets.

From the above literature, it is clearly seen that *zakat* not only purifies the property of the contributor but also purifies his heart from selfishness and greed. Similarly, it also purifies the heart of the recipient from envy and jealousy, from hatred and uneasiness and it fosters instead good-will and warm wishes for the contributors.

Poverty is define as economic condition in which one is unable to enjoy a minimum standard of living (Anis and Kassim, 2016; Awaworyi Churchill & Smyth, 2020 cited in Widyatama, Baso and Haq, 2020). Poverty causes social tensions, class-conflicts, and unrest, culminating in head-on confrontation between different social and political interests. Word bank defines poverty as low income and inability to acquire the basic goods and services with following specifications: (i) low levels of health and education; (ii) poor access to clean water and sanitation; (iii) inadequate physical security; (iv) lack of voice; and (v) insufficient capacity and opportunity to better ones life (Haugthon and Khandker, 2009 cited in Anis and Kassim, 2016)

2.2 Review of Empirical studies

In their studies, Kareem and Bankole (2016) using regression analysis found out that 59,314,152 naira was distributed across most of the southern states of Nigeria by the *Zakat* and *Sadaqah* institution covering 2009-2015. As part of their findings they revealed that 45.9% and 43.7% beneficiaries enjoyed poverty alleviation *Zakat* between ₦50,001 - ₦100,000 and ₦10,000 - ₦100,000 respectively. Kani (2015) studied the impact of *zakat* on poverty alleviation in the Kano metropolis using the logit regression model with *zakat* alleviating poverty as a proxy for poverty alleviation. He concluded that the amount received as *zakat* employment status and the number of dependent of *zakat* recipients are positive and statistically significant in determine in the impact of *zakat* in poverty alleviation Kano. This means that the higher the income received as a payment for *zakat* helps in reducing poverty.

Furthermore, the number of dependents of the recipients of zakat also helps in reducing poverty in kano.

In another study, Atah et al (2018) used qualitative methodology based on library research to explore the role of zakat in addressing development challenges in Nigeria and its potentiality in achieving sustainable development goals in Nigeria. Based on their findings zakat as a tool of Islamic social finance is capable of ensuring socio-economic and distributive justice in the form reduction of hunger, poverty and inequality. In addition, they found that effective use of zakat promotes sustainable agriculture, peaceful and inclusive societies, quality education, good health and well-being. Isiaka et al (2015) in their study tried to find out whether there a significant relationship between the amount of zakah money received and the level of poverty reduction among the poor Muslim women in Kwara State. Qasim (2020) studied the role of zakat in poverty alleviation in Nigerian society using the interview method of data collection and concluded that Zakat will be more effective if attention is placed on crisis affected areas such as Boko Haram Insurgency.

Abdullahi et al (2022) in their study they explored the relationship between zakat and poverty Alleviation in Nigeria. Using longitudinal study they concluded that the use of zakat fund in Nigeria should be reorganized and more emphasis be placed on the use of the fund to support income generating activities of zakat receivers. This is to direct zakat fund to the rural areas to reduce the rural poverty especially by empowering farmers. Large numbers of beggars who storm the houses of the rich people in the cities come from the rural areas, in order to stop this Zakat fund should be used to address rural poverty.

3. METHODOLOGY

3.1 Population, Sampling Technique and Sample size

The population used for the study encompasses nine (9) *Zakat* collection and distribution communities. The 9 Zakkah collection and distribution communities are Takai, Gwale, Nassarawa, Garun Malan, Minjibir, Kumbotso, Fagge Madobi and Dala. In each of these communities there are different *Zakat* beneficiaries and administrators. The pilot survey showed that about 62 *Zakat* administrators were found in the study area and about 1080 Zakkah beneficiaries were found.

A two stage sampling of multi – stage techniques and purposive sampling procedure was employed in the selection of respondents. The first stage involved purposive selection of six communities in the study area which comprised 40 *zakat*

administrators and total beneficiaries of 808. The communities that were purposively selected include Garun Malam, Gwale, Minjibir, Takai, Kumbotso and Nasarawa. The selection was made based on the intensity of the *Zakat* collection and distribution in those areas. The second stage involved selection of respondents based on the proportion drawn from the 8 prescribed categories of beneficiaries *Zakat* using appropriate formula.

However, Yamane’s (1967) formula was used to determine the sample size of 292 respondents drawn from the population. In addition to the 292 sampled beneficiaries, 50 respondents of the *Zakat* administrators were randomly selected proportionately across the areas. In all, 342 respondents (292 + 50) were selected for the study

3.2 Model specification of the Study

Binary logit regression would be used to estimate the determinants (or correlates) of poverty level of Zakkah beneficiaries in the study area. Logit model determines the likelihood that Zakkah beneficiary is poor if its per capita consumption expenditure (annual average income) is below the constructed poverty line given its socioeconomic characteristics. The basic equation of the model is as follows:

$$logit(pi) = \log e \frac{pi}{1-pi} \text{-----}3.6$$

Where pi is the probability of an event and logit (pi) is the transformation of such probability. The model specification of this study is in line with Firdaus, Beik, Irawan, and Juanda (2012) specified as:

$$Y_i = \alpha + B_1 * X \text{-----}3.7$$

B₀ = constant and B₁ = estimated parameters.

Y = dummy variable where:

=1 if per capita expenditure < Z and P_i = 0 if otherwise.

X = vector of explanatory variables

Thus, for the purpose of this study annual average Zakkah recipients’ income was used as proxy to per capita expenditure and the model for this study is stated as follows:

$$Pov = \alpha + \beta_1 Hh + \beta_2 Aed + \beta_3 Sm + \beta_4 Zi + \beta_5 Ds + \beta_6 Li + u_i \text{-----}3.8$$

Where:

Pov is dependent variable (poverty status), calculated as:

$$POV = \frac{\text{Average income of household from zakah}}{\text{Total number of days in year(365 days)}} \dots\dots\dots 3.9$$

If a beneficiary's income is less than 1.9 dollars (naira equivalent) a day, it means the beneficiary is poor in which case we assign 1. If the income is 1.9 dollars and above (naira equivalent), it means the beneficiary is non-poor, in which case we assign 0.

α = constant intercept

$\beta_1- \beta_6$ = coefficients

Hh, Aed, Sm, Zi, Ds, Ii = Explanatory variables

u_i = Error term

Where:

Hh = Size of Household is a dummy variable that takes 1 if at most there are 6 persons per

household or 0 if otherwise

Aed = Respondent's access to formal education is a dummy variable that takes the value of 1 if

respondent had attended to formal education or 0 if otherwise

Sm= Number of square meals taken per day.

Zi= *Zakat* received is a dummy variable that takes the value of 1 if beneficiary's use *Zakat* for

Investment or 0 if otherwise

Ds= Number of dependents a respondent sponsor in school is a dummy variable that takes the value of 1 if a respondent sponsor at most 3 people or 0 if otherwise

Ii= Income reinvested is a dummy variable that takes the value of 1 if a respondent capital is at most 1 million

Here, only β_1 is expected to have positive relationship with poverty status (Pov) predictor variables. This implies that increase in household size would result to an increase in their likelihood of being poor and vice versa. Likewise, β_2 , β_3 , and β_4 , are expected to have negative relationship between poverty status and the respective predictor variables.

The result of the log likelihood ratio was used to test the null hypothesis that all the slope coefficients are simultaneously equal to zero (i.e. $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, = 0$). That is, if the likelihood ratio (LR) is greater than the probability value, the null hypothesis will be rejected and vice versa.

4. RESULTS AND DISCUSSION

The study also considers other determinants of income poverty based on social aspects of livelihood of the beneficiaries. These determinants using logit regression are presented and discussed in Table 1

Table 1: Logit Regression of Determinants of Income Poverty

Variables	Coefficient	Std. Error	Z-Statistics	Prob.	Odds Ratio
Size of Hhold	-0.526857	0.720264	-0.731478	0.4645	0.591
Formal Edu	0.283178	0.596004	0.475127	0.6347	1.327
Sqr Meals	-0.107317	0.424377	-0.252882	0.8004	0.898
Zakat proceed	-2.597523	0.597939	-4.344124	0.0000	0.074
No of Depnts in SchL	3.490712	0.604803	5.771649	0.0000	32.809
Income reinvested	-3.411710	0.946957	-3.602812	0.0003	0.666
C	1.766899	1.436266	1.230203	0.2186	5.853

Source: Author’s Computation using SPSS

From the table above it is clear that there is no significant relationship between household size and poverty in Kano State. An increase in household size does not increase or decrease the rate of poverty in the study area. This is because the p-value (0.4645) is less than the level of significance (0.05). Furthermore, engaging in business, agriculture and entrepreneurship will wipe out the impact of increase in the size of household on poverty. For instance, China is the most populous country in the world but the impact of the high population did not increase poverty in the country. This is because of improvement in modern agriculture and technology.

Secondly, formal education has a significant impact on poverty because the probability value (0.6347) is greater than the level of significance (0.05). The positive coefficient of the parameter (0.283178) shows that formal education is likely to lead to poverty. A logical explanation to this is that formal education regardless of its level if not accompanied by entrepreneurial skills will definitely lead to poverty. Furthermore, even at the level of paid job in which salary is earned, the inflationary state of the country throws someone in to the trap of poverty. For instance, increase in prices affect the real value of income which leads to increase in standard of living with a corresponding fall in the standard of living. Therefore, unless formal education is supported by entrepreneurial and business skills, it will not guarantee reduction in the rate of poverty.

Thirdly, the number of square meals intake per day is significantly related to poverty. This is because the p-value (0.8004) is greater than the level of significance (0.05). The negative coefficient (-0.107317) shows that there is inverse relationship between the number of square meal per day and level of poverty. For instance, those who feed three times a day are said to be less poor than those who eat only once a day. Lastly, Zakah proceeds, number of dependents in school, Income reinvested have no significant impact of poverty. In otherwords, the variables are not related to poverty. Their p-values (0.0000, 0.0000 and 0.0003 respectively) are all less than the level of significance.

However, the magnitude of the impact is more easily explained by looking at the values of the odds ratios of the coefficient given in the last column of table 12 that for each additional unit in number of dependent in school, an increase of 32.809 is expected in the chance of poverty occurring, keeping other variables constant. This shows that increase in the number of dependents sponsored by the *zakat* beneficiaries in school increase their likelihood of being poor. Similarly, for each additional unit of *zakat* proceeds use for investment, an increase of 0.074 is expected in the chance of poverty occurring, keeping other variables constant. Also for each additional unit in the size of household, an increase of 0.666 is expected in the chance of poverty occurring, keeping other variables constant. Also for each additional unit in beneficiaries with formal education, an increase of 1.327 is expected in the chance of poverty occurring, keeping other variables constant. And lastly for each additional unit of number of square meals of the *zakat* beneficiaries, an increase of 0.898 is expected in the chance of poverty occurring, keeping other variables constant.

Given the robustness check of the overall significance of the model, the Likelihood Ratio (LR) test revealed that the model is robust considering that most of the included variables were together statistically significant as indicated by 0.000 probability of the LR value of 171.1430. The results therefore do reject the null hypothesis of no significant impact of Zakkah on poverty status of the beneficiaries. Also, the result also showed that about 66% of the changes in poverty are influenced by variable captured in the model (McFadden R-squared 0.657296) while the remaining 35% are influenced by other variables outside the model. This shows that Zakkah was able to improve the earnings of the beneficiaries which enable them to have better access to basic necessities of life thereby improving their poverty status.

5. CONCLUSION AND RECOMMENDATIONS

The study shows that poverty variables such as *Zakat* proceeds received, number of dependent in school and income reinvested significantly influenced poverty status of the beneficiaries. Besides, number of square meal taken by beneficiaries, formal education and size of household insignificantly influences poverty status of the beneficiaries. Also this result shows that zakat has impacted on the poverty status of the beneficiaries. Furthermore, the zakat table as explained above shows that zakat income has a significant impact on poverty reduction in Kano State. Therefore, As a result of the success of zakat on easing poverty level of the beneficiaries, zakat distribution should be extended to more communities in the state.

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