



IMPACT OF ZAKAH ON INCOME DISTRIBUTION OF ITS RECIPIENTS

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INTRODUCTION

The United Nations describes inequality as “the state of not being equal, especially in status, rights and opportunities”. One of the important inequalities that exist in the globalised world is income inequality. Income inequality can be defined as the disparity in the distribution of income in an economy. In India, due to the unequal distribution of wealth, the gap between rich and poor is increasing. The 2019 report by Oxfam, titled "Public good or Private Wealth?" showed that India's top 10% holds 77.4% of the total national wealth, while the top 1% holds 51.53% of the wealth. Many of the governmental policies to curb the problem of inequality are unsatisfactory due their bad performance.

Inequality

Inequality is concerned with disparities in the adoption of certain metric, which can be income, health, education or any other material or non-material asset. Inequality typically refers to within the country's inequality on individual or group level, such as between gender, urban and rural population, race and education.

Inequality in earnings has doubled in India over the last two decades, making the worst performance on this count of all emerging economies. Wage inequality has driven more general income inequality in the country. India's Gini Coefficient, the official measure of income inequality has gone from 0.322-0.38, with zero being the ideal score. This is lower compared to China, Brazil, US. In early 1990's India's income inequality was close to that of developed countries¹.

¹Economic Inequality in India. (Dec 7, 2011). *The Times of India* .

Zakat

Zakat is one of the five pillars of Islam, which has been made obligatory by Allah to teach and every Muslim to carry out. It is a term used in Islamic economics to refer the obligation that an individual has to donate a certain fragment of wealth each year to charitable causes. The act of Zakat means purifying the wealth to gain Allah's blessings to make it grow in goodness. Zakat is an annual alms tax or poor rate that each Muslim is expected to pay as a religious duty and that is used for charitable and religious purposes.

Zakat is discussed in both the Quran and the Hadith literature. In the Quranic view, Zakat is a way to redistribute the wealth, thus increasing the flow of cash in the economy with a particular interest in the poor and the disposed Muslims. Zakat is considered more than taxation. One must give Zakat for the sake of his salvation. While those who give Zakat can expect reward from God in the afterlife, neglecting to give Zakat can result in damnation. The giving of Zakat is considered a means of purifying wealth and soul.²

According to the Hadith, refused to pay Zakat is a sign of hypocrisy, and God will not accept the prayers of such people. The Hadith states that the poor would not be hungry if the rich gave Zakat. On the Day of Judgment, those who did not give the Zakat will be held accountable and punished.³

The amount Zakat to be paid by an individual depends upon on the amount of wealth and the type of asset the individual possesses. The amount of Zakat to be paid on capital assets is 2.5 percent⁴. Zakat is additionally payable on the agriculture goods, precious metals, minerals and live stock at a rate varying between 2.5 and 20 percent, depending on the type of goods.

Today, in most Muslim countries Zakat is collected through a decentralized and voluntary system where eligible Muslims are accepted to pay the Zakat based on worship and love of God. Under this voluntary system Zakat committees are established which are tasked with the collection and distribution of Zakat funds⁵. Some Muslims countries including Saudi Arabia and Pakistan are collected the Zakat in a centralized manner by state and it is obligatory. In Jordan, Bahrain, Kuwait, Lebanon and Bangladesh the Zakat is regulated by the state, but contributions are voluntary.

According to the Quran, there are eight categories of people who qualify to receive Zakat funds⁶. They are:

- 1) Those living in absolute poverty
- 2) Those restrained because they cannot meet their basic needs

²Heck, P. L. (n.d.). Taxation. *Encyclopaedia of the Qur'an* .

³Zysow, A. (n.d.). Zakāt. *Encyclopaedia of Islam, Second Edition* .

⁴Gianci, M. A. (n.d.). Zakat . *Encyclopedia of Taxation and Tax Policy* , 479.

⁵Marty, M. E., & Appleb, R. S. (1996). *Fundamentalisms and the state: remaking polities, economies, and militance*. Chicago : University of Chicago Press.

⁶Waal, A. D. (2004). *Islamism and its Enemies in the Horn of Africa*. US: Indiana University Press.

- 3) The Zakat collectors themselves
- 4) Non-Muslim who are sympathetic to Islam or wish to convert to Islam
- 5) People whom one is attempting to force from slavery or bondage
- 6) Those who have incurred overwhelming debts while attempting to satisfy their needs
- 7) Those working in god's way
- 8) Children of the street or travelers

Statement of the Problem

Inequality in the distribution of income is one of the major problems that India faces in last three decades. It produces a cascading effect and severely affects many areas of the society. Many governmental measures to mitigate the gap between rich and poor perform poorly. Ineffective management and leakages in the system makes the problem more pathetic. This study is an attempt to analyze, whether the distribution of Zakat have any effect on the inequality of the income of households.

Objectives of the Study

The main objectives of the study are:

- 1) To analyse the impact of Zakat on income distribution of the sample households.
- 2) To study the socio-economic background of sample households receiving Zakat.
- 3) To examine the purpose for which the Zakat recipients use their Zakat.

Data and Methodology of the study

This study is based on primary data collected from different households and regional Zakat committees located in Kerala. Data is mainly collected from Zakat recipients in Malappuram district of Kerala. The size of sample used to analyze this study is 70 households. The study uses simple statistical tools to analyse the effect of Zakat on income distribution.

REVIEW OF LITERATURE

Khokhar (2010)⁷ worked on the influence of Zakat in upholding wealth distribution and social imbalances. The purpose of the paper was to draw attention towards the idea that has gone due to the failure of economic system or ineffectiveness. He argued that Zakat system balanced the social inequality and reduced the gap between rich and poor and distribution of income. For analyzing the paper he used articles and texts from holly Quran. He also used journals and research papers published in the area of wealth distribution and economic system.

He found that there was inequality in economic opportunity and distribution of wealth in the modern civilization. At some extent Zakat system in Islam was reduced this problem in many areas where there was a large proportion of Muslims.

Ibrahim (2006)⁸ attempted to examine the role of Zakat as a mechanism to reduce income inequality and poverty in the states of Selangor. He collected data from nine Districts in Selangor. In the paper the effect of Zakat distribution on income inequality and welfare loss are examined by using Lorenz curve, Gini coefficient and Atkinson index.

He found that Zakat system reduced the poverty in Selangor. The analyzed data used by the Lorenz curve and Gini coefficient revealed that there was a positive contribution of Zakat distribution in reducing income inequality. The result related to Atkinson index the practice of Zakat distribution increased income inequality, increased income losses and reduced social welfare.

Raquib (2010)⁹ worked on how Islamic banking and Zakat reduced the poverty a little in Bangladesh. He argued that Islamic banking combined with Zakat and micro investment could be a better effective and meaning full pathway for poverty reduction. This paper done an attempt to analyze how Islamic banking how Islamic banking system used as a more appropriate institutional approach to deal with human poverty, inequality and exploitation in the society of Bangladesh.

He found that the working of IBBL (Islam Bank Bangladesh Limited) was leaded to poverty reduction at some extent. He supported the pooling of Zakat funds from Zakat surplus countries to eliminate poverty in the resource deficit countries.

Firdaus, Beik, Irawan and Juanda (2012)¹⁰ where worked on the economic estimation and determination of Zakat potential in Indonesia. The study aimed to estimate the potential of Zakat in Indonesia and explored the relationship between demographic characteristics and Zakat payment. Here they

⁷ Khokhar, M. Shahbaz (2010). *Zakat as Social Balancing Tool: Influence of Zakat in upholding wealth distribution and social imbalance*. Sharjah: University of Sharjah.

⁸ Ibrahim P B (2006) *Economic role of zakat in reducing income inequality and poverty in Selangor*. Malaysia: PhD Thesis, School of Graduate Studies, Universiti Putra.

⁹ Raquib, A. (2010). Islamic banking and zakat- an alternative approach to poverty reduction in Bangladesh. *Journal of Islamic economics, banking and finance* , 11-26.

¹⁰ Firdaus, M., Beik, I., Irawan, T., & Juanda, B. (2012). Economic Estimation and Determinations of Zakat Potential in Indonesia. *IRTI Working Paper Series WP# 1433-07* .

collected primary data from 345 households and for that they used a questionnaire. They also used secondary data from SUSENAS (Survei Sosial Ekonomi Nasional) 2009, Economic census 2006 and Banking statistics 2009 and 2010. The paper used the logistic regression method and analyzed the factors that influenced the respondents in their payment of Zakat and alms.

The paper found that the Zakat collected by the year 2010 was 3.4 percent of the GDP (Gross Domestic Product) of the same year. They argued that the distribution of Zakat fund helped generated and steered the country's economic activity through increase in individual's purchasing power.

Wahid, Kader and Ahmad (2012)¹¹ supported the localization of Zakat. The paper argued that localization of Zakat through mosque added efficiency and hence helped to alleviate poverty. The objective of the work was to empirically examine the perception the Zakat receivers and the Zakat distributors on whether Zakat distribution at the local level should be managed by the mosque, compared with other channels of distribution. The paper used the Structural Equation Model (SEM) and analyzed the relationship between the Zakat distributors and Zakat receivers.

The paper found that most of the Zakat distributors supported the localization of Zakat distribution through the mosque.

Abdin (2013)¹² the main purpose of Zakat is poverty alleviation. He argued that alms are for the poor and needy and also for those who had huge debt. The paper stressed on the fact that many of the Muslim countries can manage to solve the problem of poverty in their society through the institution of Zakat, if the collection is regulated by law. The paper proposed for the establishment of an international organization for Zakat collection and distribution and that organization should consist of all the Zakat institution in the Muslim world. He also proposed for the transfer of surplus Zakat funds from rich countries to poor needed countries, they actually had the shortage of Zakat.

Mohammad and Rahim (2012)¹³ analyzed the role of Zakat in reducing poverty in the Sarawak district of Malaysia. The objective of the study was to describe how the TabulBaitumal Sarawak (TBS) distributed its Zakat collection in supporting the state government's effort to reduce the local hardcore poverty. They collected primary data from the key informants and also collected secondary data in the form of documents and reports for the period of 1970 to 2007. The paper used Hypothesis test to analyze the collected data. The paper tested that does Zakat in Sarawak worked properly.

The paper found that there was decrease in the poverty in Sarawak district by the distribution by the distribution of Zakat to the destitute and poor in the period of 1970 to 2007.

¹¹Wahid, H., Kader, R. A., & Ahmad, S. (2012), localisation of Zakat distribution, religiosity, quality of life and attitude change. *he 13th Malaysia Indonesia Conference on Economics, Management and Accounting*. Malaysia.

¹²AL-ABDIN, A.-T. Z. (2003). The Disbursement of Zakāh. *Islamic Studies*, Vol. 42, No. 1 (Spring 2003), pp. 127-13.

¹³Mohamad, N, & Rahim, S. (2012). Role of zakat in reducing poverty in Sarawak. *Working Paper Series No. 1203*

Said and Yusuf (2009)¹⁴ investigated whether the organization learning culture had helped Zakat organization in reducing Zakat beneficiaries depending on Zakat assistance package. The study used four methods in data collection that was interviews, non-participatory observation, documentary analysis and archival analysis.

The paper found that the lack of knowledge and attitude of Zakat beneficiaries too contributes significantly to the success and failure of Zakat assistance package. Also found that the Zakat beneficiaries are still Zakat dependers because they are getting the assistance for more than a decade.

Laila (2009)¹⁵ examined the utilization of Zakat funds for the building of food reserve. The paper proposed the attainment of food security through the mechanism of Zakat. He told that Zakat can be used as an effective tool to combat social and economic challenges.

The paper found that the principle draw backs of the small agricultural producers are the lack institutional support in sourcing, training, market access and storage. The Zakat based model addressed these issues and there by boosted agricultural output. He suggested the use of Zakat for the purpose of free education and health care to its citizen.

Hassan and Mansur Khan (2007)¹⁶ estimated the impact of Zakat funds on the Annual Development Plan (ADP) of Bangladesh. The paper focused the necessity of Zakat as a poverty alleviation tool in Bangladesh. The implementation of Zakat in Bangladesh had several potential effects on governmental budget. The paper argued that the Zakat fund can increase the taxation potential of the government through the improvement of productivity, employment and output.

He found that government was used Zakat funds for the developmental purpose or as social expenditure. The paper stressed on the need to include Zakat as one of the international poverty alleviation instrument.

Omar, Ibtisam and Lubis (2009)¹⁷ attempted to investigate a suitable system for the effective and efficient Zakat management process at national and international level on the basis of Malaysia's Zakat distribution process. The paper showed that the Zakat recipients increased almost each year gradually. But 15 percent of Zakat became undistributed. For the effective and efficient Zakat management process, the paper proposed an integrated Geographical Information System (GIS) method.

The paper found that the usage of GIS in Zakat management process enhanced the capability in statistical and distribution analysis characteristics for the Zakat management between states internally and externally.

¹⁴Said, J., & Yusuf, S. S. (2009). Poverty Alleviation Projects of Zakat Distribution: The Role of Organizational Learning in Ensuring Project Success. *8th International Conference on Islamic Economics and Finance*. Doha.

¹⁵Laila, Tanim (2009). *Zakat Based Solutions to Food Security*. Dhaka: Institute of Hazrat Mohammad SAW.

¹⁶Hassan, M. K., & Khan, M. (2007). zakat external debt and poverty reduction strategy in Bangladesh. *Journal of Economic Cooperation*, 1-38.

¹⁷Lubis, M., Yaacob, N., & Omar, Y. (2009).enhancement of zakat distribution managing system: case study in Malaysia. Malaysia: International Islamic University.

Yusoff (2008)¹⁸ stated that modern approach to Zakat institution was a significant social and economic instrument for the poverty alleviation and stability of Muslim community. The paper highlighted the wider scope to understand the term poverty and discussed how Zakat institution can play an important role to alleviate the status of poverty in Muslim countries in the modern world.

He found that Zakat fund can be utilized for the development of resources especially concentrated in the area of human capital development for the long term rather than short term relief for those it needed and at the same time prevented the Zakat revenues from diversion to undesired direction. He stressed that Zakat funds can be used as a mean to provide assistance that will have a long lasted effect.

Abdelmawla (2010)¹⁹ examined the role of Zakat and how to reduce poverty in Sudan during the period of 1990 to 2009. He argued that raised the percentage spend on the poor out of total Zakat fund was highly recommended to reduce inequality in the distribution of income. For this study he used the data from Central Bureau of Statistics (CBS). He applied Ordinary Least Square method (OLS) to analyze the relationship between Zakat and educational attainment.

The paper found that Zakat and educational attainments had impact in reduce poverty in Sudan in the period of 1990 to 2009.

Akram Khan (1993)²⁰ worked on the Zakat control system in Pakistan. The objective of the paper was to evaluate the legal administrative and financial control of Zakat system in Pakistan. The stated that nobody was allowed to pay Zakat more than once for the same wealth in a year.

The paper found that the Zakat law given exemption to certain categories from compulsory payment of Zakat. As a result a large amount of Zakat escaped the official network. Zakat control in Pakistan included Islamic law control, financial control and administrative control.

DISTRIBUTION OF ZAKAT AND ITS IMPACT ON SAMPLE HOUSEHOLDS

In India, the distribution of Zakat is popular among Muslim community. Those who have the ability to pay Zakat should give Zakat to the poor and needy people. Zakat is one of the five pillars of Islam. There are eight categories of people who qualify to receive Zakat funds. The distribution of Zakat is done through various means such as District Zakat cell, Zakat committees under the aegis of Mosques, direct transfer by individuals etc.

Since Zakat is paid to the poor and needy people, it will make some positive impact in the income distribution. The payment of Zakat is one of the ways to curb the problem of mounting inequality in India.

¹⁸Yusoff, W. S. (2008). Modern approach of Zakat as an economic and social instrument for poverty alleviation and stability of ummah. *Jurnal Ekonomi & Studi Pembangunan* , Vol 9, No1.

¹⁹Abdelmawla, M. A. (2011). The Impacts of Zakat and Knowledge on Poverty Alleviation in Sudan: An Empirical Investigation (1990-2009). *8th International Conference on Islamic Economics and Finance*. Doha.

²⁰Khan, M. A. (1993). An evolution of zakat control system in pakistan. *Islamic Studies* , Vol. 32, No. 4, pp. 413-431.

This chapter discusses the impact of Zakat on income distribution of its recipients. The table 1 shows the details of medium which is used for Zakat payment.

Table: 1. Mode Zakat distribution

Sl. No.	Details	No. of Households	Percentage (%)
A	Zakah in Cash		
	1)Received	61	87.14
	2)Not Receiving	9	12.86
Total		70	100
B	Zakah in Rice		
	1)Received	66	94.29
	2)Not Receiving	4	5.71
Total		70	100
C	Zakah as Jewels		
	1)Received	4	5.71
	2)Not Receiving	66	94.29
Total		70	100

Source: primary data collected

The common mediums used for the distribution Zakat are cash and rice. The table 1 reveals that majority of the respondents receive Zakat in the form of cash or rice. Only few respondents receive Zakat in the form of jewels. The Zakat on body (Fitr Zakat) is mostly paid in the form of rice. Those who have jewels calculate its money value and pay in terms of cash.

Table 2 shows the quantum of Zakat amount received by the respondents. The Zakat amount received ranges between 1000 and 20000 or above. Those who receive Zakat in the form rice get the quantity in between 10 kg 50 kg.

Table: 2. Quantum of Zakat Received

Sl. No.	Details	No. of Households	Percentage (%)
A	Amount of Zakah in Cash (Rs.)		
	1)1000-5000	16	26.23
	2)5000-10000	17	27.87
	3)10000-15000	15	24.59
	4)15000-20000	9	14.75
	5)Above 20000	4	6.55
B	Amount Rice as Zakah (in Kg)		
	1)10-20	31	46.97
	2)20-30	24	36.36
	3)30-40	9	13.64
	4)40-50	2	3.03
	5)Above 50	0	0

Source: primary data collected

The table 2 exposes that more than fifty percent of the Zakat recipients get 10000 or below as Zakat. Only few respondents receive Zakat by an amount more than 20000 and around 25 percent of the respondents receive an amount ranging in between 10000 to 15000. When the Zakat in the form of rice considered, around 47 percent of them receives 10 to 20 kg of rice and 36 percent of them get 20 to 30 kg of rice as Zakat. The amount of Zakat received in the form of jewel is 2 to 4 grams because majority of the Zakat payers possess gold pay its amount in cash. The payment of Zakat either in the form of rice or in the form of cash make some changes in the standard of living of the recipients. It can reduce the poverty and inequality to some extent. No one from the respondents save Zakat amount received for future since they have to use it for satisfying their basic needs. After receiving the Zakat amount, majority of the households are able to improve their standard of living.

Benefits of Zakat on its Recipients

The Zakat payment benefited its recipients in different ways. It increases the income of its beneficiaries. The beneficiaries used this amount for various purposes such as meeting food requirements, construction of house, repairing house, education of children in the family, repayment of loan, starting a business etc. Table 3 shows the ways in which Zakat amount is used.

Table: 3. Benefits of Zakat to the Household

SL.No.	Benefits	No. of Households	Percentage (%)
1	Construction of House	5	7.14
2	Food consumption	10	14.29
3	Repaired House	15	21.43
4	Education for Children	6	8.57
5	Repayment of Loans	4	5.71
6	Started Business	1	1.43
7	Medicine and Other Expenses	5	7.14
8	Conducted Marriage	4	5.71
9	Others	20	28.57
Total		70	100

Source: primary data collected

The table 3 reveals that the beneficiaries of Zakat use the Zakat amount for various activities as per the requirement. Around 14 percent of the beneficiaries use it for meeting their day to day food expenses. Some of the beneficiaries used the amount for repairing their house and it accounts around 21 percent. It is only less than 10 percent of the total beneficiaries who use it for wants such as conducting marriage, education of children, and construction of house.

CONCLUSION

Zakat is a term used in Islamic finance to refer the obligation that an individual has to donate a certain proportion of wealth each year to charitable causes. The act of Zakat means purifying the wealth to gain Allah's blessings. The basic objective of Zakat is to create a balance in the society by circulating wealth from rich to poor. Payment of Zakat is able to reduce the poverty and increases the standard of living of the lower sections. It also ensures stability in the economic condition of the society. The beneficiaries of Zakat are able to use the amount received for various activities such as meeting the basic needs, starting business and loan repayment.

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