



# Zakah, Poverty Alleviation, and Inclusive Growth in Nigeria

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## Abstract

Macroeconomic literature is replete with discussions on fiscal policy in both developed and developing economies but not much research has been done on *zakah*, a compulsory tax on Muslims, especially its role in alleviating poverty and generating inclusive growth. *Zakah* primarily aims at taking surplus money or wealth from the comparatively well-to-do members of the Muslim society and give it to the destitute, the needy and the wayfarer, among others, to improve their purchasing power and economic prosperity. Thus, there is a need to investigate the impact of *zakah* on poverty alleviation and inclusive growth by assessing the nature of the nexus between *zakah* and poverty alleviation as well as how and the extent to which those assisted with *zakah* funds move out of poverty and contribute to inclusive growth. The paper uses descriptive statistics and ordinary least square regression and found that *zakah* can contribute to the empowerment of the recipients and can additionally alleviate the poverty of the poor who use the unconditional transfer for shelter, debt repayment, medical support, among others.

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Keywords: *Zakah*, Taxation, Poverty, Inclusive Growth

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## 1. Introduction

*Zakah* is a deduction of certain percentage from the wealth of Muslims and a form of charity or alms giving. It is obligatory on every Muslim whose wealth has reached a minimum value called *nisaab*. Besides being a form of worship, alleviating poverty and economic empowerment are some of the key aims of *zakah*. Of the five pillars of Islam, it plays a special role for it is the only one that links its payers to the receiving hands of the poor with a view to alleviating their poverty and empowering them. Observers of the other four pillars i.e. *imān* (belief), *salāt* (prayer), *Sawm* (fasting) and *Hajj* (pilgrimage to Makkah) would receive the benefits personally. No one would be affected or share parts of the benefits of their actions directly or indirectly as in the case of *zakah*. At several places in the *Qur'an* (the Book of Islam), *zakah* has been enjoined upon Muslims along with *salat* and it is repeatedly mentioned about 82 times in the Book.

The importance of *zakah* is seen in providing non-refundable financial assistance to the poor with no collaterals attached. This aspect is not found in the interest-free loans given by Islamic banks, let alone the interest-based loan of conventional banks. Conventional banks demand for collateral security on loans, the payment of interest and the repayment of the principal. All the three aspects of the latter bank type and one aspect (repayment) of the former attached to the provision of finance are not found in the non-refundable financial assistance in *zakah*. Moreover, it removes the vices of corruption, selfishness, greed, among others, from its payer; it purifies him from the love of material acquisition; it trains its giver to be generous, and it makes him express his thankfulness to God for His bounties on him. When a person gives out *zakah*, it means he removes what does not belong to him because the giver does not have moral or legal possession of the percentage. By giving it out, it means he has avoided corruption. But if he does not, he retains what belongs to others (i.e. the poor, the needy etc.). That behaviour is tantamount to corruption and usurpation of other people's wealth from every point of view, spiritual, economic, legal and moral.

When a person gives *zakah* because of his belief, he does so without expecting returns in exchange, it liberates him from materialistic enslavement and love of earthly things as stated in the *Qur'an* (102:1-8). By alleviating the poverty of the poor, a payer of *zakah* grows spiritually. His wealth also grows because

giving out *zakah* out of one's wealth is a cause of growth and abundant blessing for caring for the poor through *zakah*. A payer of *zakah* wins the love of the receiver because the heart of its recipient is purified from envy, jealousy, hatred and uneasiness. Therefore, he also grows spiritually. If one pays *zakah*, one has removed what belongs to other people from one's wealth and fortified the remaining part of the wealth. However, if one's wealth is earned through unlawful means, no amount of *zakah* can purify such ill-gotten wealth. *Zakah* is meant to remove the suffering of the poor who should consider it as an emergency measure. They should not depend on it totally. It is wrong in Islam to consider taking alms as a profession. The recipients of *zakah* should empower themselves by doing something with the proceeds of *zakah* with a view to liberating themselves from poverty and in turn later give *zakah* to empower others after poverty has been eradicated from their lives. Hence, it leads them to inclusive growth. Indeed, the objective is to alleviate poverty and foster economic growth using the *zakah*. Poverty can be eased by giving the poor some money that they will consume immediately. Therefore, *zakah* removes poverty through its use for immediate consumption, raising the recipients above the threshold of the poverty definition. However, economic growth, or inclusive growth needs investment allocation, hence, *zakah* contributes to inclusive growth when the recipients use it for investment purposes, no matter how small the amount. What is important is not the scale of the investment but that such investments provide returns, which can be reinvested for business growth. In this way, *zakah* features the participatory property of inclusive growth as it allows the receivers to engage in small businesses, which contribute to raising the gross domestic product of the economy. Thus, there is a need to investigate the impact of *zakah* on poverty alleviation and inclusive growth. The main objective of the study is to determine the nature of the nexus between *zakah* and poverty alleviation; and how and the extent to which those assisted with *zakah* funding move out of poverty and contribute to generating inclusive growth. The paper determines the existence of *zakah* and its use for poverty alleviation and inclusive growth. Specifically, it determines whether and the extent to which *zakah* contributes to poverty alleviation through receipt and utilization of the unconditional transfer component of *zakah*. Second, it explains the transmission channels of *zakah* and inclusive growth, which runs from the unconditional transfer component of *zakah* to investment capital, investment and employment generation in the economy.

The rest of the paper is organized as follows. Section two discusses the trend of poverty in Nigeria and government policies to alleviate it over time. The review of literature regarding *zakah* is provided in section 3. Section 4 discusses the paper's methodology and presents its empirical analysis. Section 5 concludes and proffers associated recommendations.

## 2. Stylised Facts: Poverty, Policies and Economic Growth

Past and present efforts at promoting financial inclusion in Nigeria with a view to attaining inclusive growth include establishment of community bank now microfinance bank, rural banking programme 1977-1983 and people's bank of Nigeria. (1989-1994). As a way of providing funds for the poor with a view to achieving inclusive growth, some institutions were created. Some of them were Small and Medium-Scale Enterprises (SMES), National Economic Reconstruction Fund (NERFUND) and Family Economic Advancement Programme (FEAP). Recently, financial inclusion was included in the cardinal objectives of the Nigerian Financial System 2020 (FSS2020) with a view to attaining the same goal. Other initiatives include microfinance policy, development of varied financial products and development of credit system (9% interest on loan by CBN to entrepreneurs). It was in 2011 that non-interest financial institution was given a new framework with the intention of making funds available for that segment of the society who could not source funds interest-based because their religious affiliation prohibits it. E-banking, electronic payment system and cashless policy are all geared toward making financial inclusion effective and efficient. However, the reality on the ground is opposite.

Different poverty alleviation and empowerment programmes were introduced by successive governments in Nigeria with advice from some international organizations. For instance, the administrations of Yakubu Gowon, Olusegun Obasanjo, Muhammad Buhari, Sheu Shagari, Ibrahim Babangida and Sani Abacha introduced National Accelerated Food Production Programme, Operation Feed the Nation, Green Revolution Programme, Go Back to Land and Directorate of Food, Roads and

Rural Infrastructure (DFRRI) respectively with a view to removing hunger from the society and increasing the production of food and other related farm produce. The intention of the above-mentioned administrations was to get the people of Nigeria fed very well, to empower them and to raise their standards of living. Many institutions such as the Community Bank of Nigeria, the National Directorate for Employment (NDE), National Economic Empowerment and Development Strategy (NEEDS) were also initiated to create employment with a view to empowering the people, earn income improve their standards of living. Despite all the efforts, poverty indicators in Nigeria have been on increase as shown in Figure 1 drawn from Appendix Table 1.

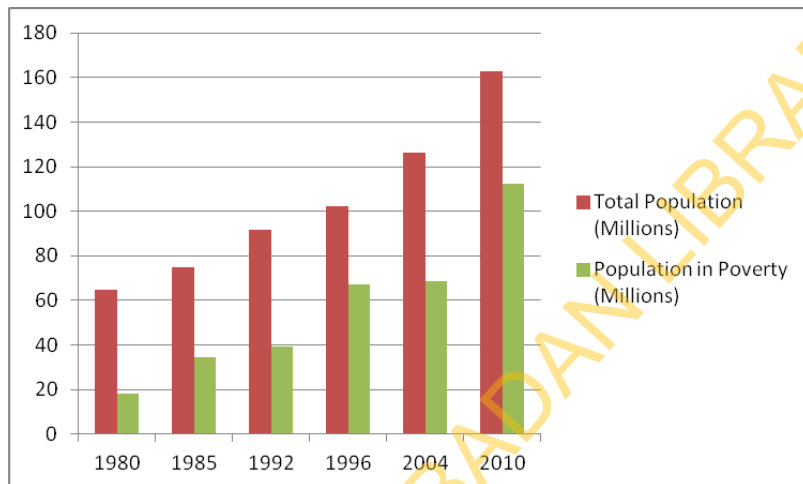


Figure 1: Relative Poverty Headcount from 1980-2010

Source: National Bureau of Statistics HNLSS 2010

### 3. Literature Review and Theoretical Framework

#### 3.1 Literature Review

Poverty is one of the challenges of the century. To alleviate the sufferings of the poor, Landiyato, suggested strengthening of the micro finance institutions and developing of community-based micro finance. He believed that if micro finance were community-based, it would be effective and efficient to provide financial assistance to the members of the community in which it is situated. Funds earmarked by big companies and multinational firms to carry out their corporate social responsibility are given as loan to micro, small and medium enterprises. He suggested that such funds could be routed through micro finance banks or big banks. As good as his suggestion is, for the mere fact that the loan will be given to the micro, small and medium enterprises on interests, it cannot make much impact as far as alleviating their poverty is concerned. In fact, it is likely to add to their burdens because of the interest they would pay on such funds.

Various researchers have studied the relationship between *zakah* and poverty alleviation. The works of Mirakhor and Iqbal (2012), Al-Qardawi (2000), Kahf, Sapingi et al. (2011), Zionol and Kamil (2008), Iqbal (1997), Imam Ghazzali (2001) and Dogarawa (2008) are very relevant to the issue of poverty alleviation and economic growth. They recognized that the gap between the rich and the poor is very wide which has sidelined the poor and the low-income earners from enjoying bounties of this world. In the area of housing, finance, cost of land, cost of building materials, low-income, among others are some of the constraints and problems related to housing delivery in Nigeria which make it difficult for the poor to enjoy life. One of the problems and the major problem is the high interest rates, which contribute to the high cost of housing in Nigeria. Many people, who took the loan, could not pay because of accumulated interest. Therefore, housing finance in Nigeria has been an appalling one. *Zakah* is the best alternative to assist the poor.

Exploration of the intention of income earners to pay *zakah* on employment income among academics in Kano state, Nigeria was done by Kabir et al, using Reasoned Action theory and structural equation modeling. They examined 300 academics in the state and found that they are favourably disposed to paying *zakah*. The challenge that needs to be resolved is how it can be efficiently and effectively collected. Qardawi in his work *Fiqh az-Zakah* explores virtually all the aspects of *zakah* such as *zakatable* items, recipients and the rates of *zakah*. He explained how it can empower the poor and cleanse its payer and his wealth (Qardawi, 2000). Employment income is *zakatable* because, all the factors of production used in the creation of goods and services, were all created by Allah. Therefore, paying *zakah* is as if the payer is returning the wealth to its real owner (*Qur'an* 20:6).

The role of *zakah* as an effective tool for economic growth through transfer of ownership of income from the rich to the poor is the concern of Kahf and Iqbal in their works. *Mudarabah* projects of Islamic banking can use *zakah* to generate more money for the poor by investing it in *Shari'ah* compliant products. However, this stand may not be acceptable because such a project is not included in the 8 categories of recipients of *zakah*. However, if individuals are given *zakah* and then the money is invested by them that may be acceptable. Femi Abbas (2015) considers *zakah* to be the only source of funding in a country like Nigeria where Islamic law is not strictly in use. He also considered it as the major resources that can be used to empower the poor with a view to assisting them to attain inclusive growth. The poor need to be provided with *zakah* to enable them make ends meet and to empower them so that they can also pay *zakah* subsequently.

Micro finance banks claim to provide finance to low-income population at a reduced rate of interest with a view to reducing their poverty and income disparities and increasing economic growth. The reality on the ground is opposite because of their murderous interest rate which is in the realm of about 3% per month representing an interest rate of 36% in a year! This percentage is far higher than that of the commercial banks, which is also in double digits. Islamic banks provide finance for investors through their different products such as *mudarabah* and *musharakah* but the finance user still needs to return the funds to the providers. This is not the case with the proceeds of *zakah*. It has a greater comparative advantage than interest-free banking products in this sense.

Redistributive instruments such as *zakah* and *sadaqah* are means of empowering able-bodied segment of the society. The recipients do not return the capital. The other way by which financial inclusion is addressed in Islam is through promoting risk-sharing contracts such as *mudarabah*, *musharakah* and *murabahah* (Iqbal and Abbas 2012). Without financial inclusion, inclusive growth cannot be achieved. This is because financial services need to be provided either by private sector, individuals or public sector for those who could make use of them to alleviate their poverty, to improve their standards of living and to attain inclusive growth (Kama and Adigun, 2013).

Warisame, Mohammed Hersi in his study of the role of Islamic finance in tackling financial inclusion in the U.K., found that the majority of U.K. Muslims are financially excluded and by implication they could not achieve inclusive growth (Warisame, 2009). This is due to a lack of banking products that are interest free. Their needs could not be met by interest-based banks whose activities are not *Shari'ah*-compliant. The same may be also said of Nigerian Muslims. While studying the role of Islamic finance in enhancing financial inclusion in Organizations of Islamic Cooperation (OIC) countries of which Nigeria is a member, Mohiudeen et al (2012) identified gaps currently existing in them on *Shari'ah*-compliant microfinance and financing for small and medium enterprises. They believe that if the products are used, they would enhance access to finance for the purpose of empowering them. This will in turn give them the opportunity of paying *zakah* to the other less privileged people in order to reduce their poverty and also empower them. They, therefore, recommend exploitation of the potential of Islamic instruments, i.e. Islamic finance and redistributive instruments, such as *mudarabah* and *zakah* to attain the goal. This would take care of a set of finance users particularly Muslims who exclude themselves from the financial services for religious or cultural reasons despite having access and ability to take up the financial services (Beck and Demirguc-kunt, 2008). According to Askar et al (2011), "Islam asserts unambiguously that poverty is neither caused by scarcity and paucity of natural resources, nor is due to the lack of proper synchronization between the mode of production and the relation of distribution, but as a result of waste, opulence, extravagance and non-payment of what rightfully belongs to the less able segments of the society". Less able people are members of the society. Therefore, they should be catered for from the

available resources. Allah is the Creator and Ultimate Owner of all resources; and He has created them freely for the use of mankind. He has given not only the resources freely and unequally but also the abilities that can facilitate the access. It means man relies on Him for everything. Therefore, the under-privileged and the unable ones are partners of able-bodied people. The same opportunities must be given to all members of the society to strive to have access to natural resources of Allah. In terms of food, shelter, healthcare and education, everybody must be given a level playing field to avail himself the opportunities.

Moheildin, Iqbal, Rostom, and Fu (2011) find supporting evidence that 20 out of 39 OIC countries can actually alleviate the poorest living with income under \$1.25 per day out of the poverty line simply with proper collection and management *Zakat*. Poverty may lead people to disbelief and can engender many crimes and misdeeds. It may prevent people of weak minds from following the injunctions of Allah (Ataul Haqq, 1993:5, 6, 22; Irfanul Haqqi, 1989 6, 86). Ataul Haqq (1993) examined the effects of Zakat on economic growth. He believes that *zakah* can assist people to live above poverty line. Islam caters for the poor. It is not only to make them live above the poverty line but also it will empower them economically, i.e. it can have positive impact on economic growth. Zaim (1985) examined the macroeconomic impact of *zakah* and found that the proper management of its proceeds is capable of stabilizing economy. He believes that it can increase productivity, investment and aggregate demand. Redistribution of the national income is possible through *zakah*. Its multiplier effects on employment and incomes would prevent giving financial assistance to the same set of people every year.

#### **Main features of Zakah**

**Position of zakah:** *zakah* is the third pillar of Islam and it is incumbent upon every Muslim in possession of a minimum of wealth called *nisaab*. Literally, it means purity and growth. It purifies wealth by removing what does not belong to its payer. *Zakah* has the power to multiply wealth because when resources are transferred from the rich to the poor, the aggregate demand of the poor is increased, which in turn induces production. Therefore, the two important aspects of fiscal policy i.e. promotion of growth and improvement in distribution of income and wealth are also the two important aspects of *zakah*, the symbol of fiscal policy in Islam.

**Items on which zakah is paid:** zakatable items include farm produce, livestock, minerals (gold and silver) merchandise and other goods of trade and industry. However, Articles of personal use, Animals meant for agriculture, domestic animals and vegetables are exempted from *zakah*. Items whose value is less than the minimum value are excluded from *zakah*.

**The rates of Zakah:** the *zakah* rate on agricultural produce if the land is irrigated is one-twentieth. If it is not irrigated, i.e. if cultivation is dependent wholly on natural rainfall, it is one-tenth. One fifth (*khums*) is paid as *zakah* on mines and treasure (*ma'adinu rikaaz*). One-fortieth is given on incomes or profit made from business. One goat is given for every 5 camels, one-year old she-camel for 25 to 35 camels etc. On 30 cows, the rate is one-year old calf. One two-year old cow is paid on 40 cows etc.

**Minimum Value on which zakah is paid (nisaab):** The minimum value for silver is 200 dirhams (52 ½ *tolas* about 612 grams) for gold at 20 *dinars* (7 ½ *tolas* about 84 grams), for agricultural produce at 5 *wasq* (five-camel load about 948 kilograms), for animals at 30 cows, 5 camels are given.

**Rules Relating to the payment of zakah:** only Muslims pay *zakah*. Minors and insane person are exempted from paying *zakah*. If the remaining balance after deduction of one's debt is less than the minimum value of wealth, *zakah* is not to be paid on the remaining balance. Only owner of the property can pay *zakah*. For farm produce, mines and treasure-trove, *zakah* is given on them after harvest and mining respectively.

**Heads of Expenditure:** God in the *Qur'an* (9:60) has prescribed those people who should receive *zakah*. It is for the poor, the destitute, collectors of *zakah*, those whose hearts are to be reconciled, freeing the slaves, debtors, the cause of God and travelers. *Zakah* is only for the above-mentioned recipients.

**Zakah and tax:** Although *zakah* and taxes are similar in the areas of obligation, payment to public body, lack of reciprocity between the amount paid by its payers and the services received by them, and objective of payment such as social, economic and political, there are major and fundamental differences between the two. One of them is the name *zakah*, which means growth and purity, while tax means imposition and charge. The former is a form of worship, the third pillar of Islam, while the latter is a mere civil obligation. The rates of *zakah* are fixed e.g. 2.5% on money. Taxes are changed by people in the

authority from time to time. *Zakah* is paid as long as one's wealth is due for *zakah* forever. Some taxes can be changed, modified or eliminated by people in the authority. *Zakah* recipients are stated in the *Qur'an* (9:60) while the state determines how tax proceeds are used. They may be invested in non-*Shari'ah* compliant products. Taxes are between people and the government while there is a relation between payers of *zakah* and God on one hand and between the payers and the recipients on the other hand.

### 3.2 Theoretical Framework

“Every empirical study rests on a theoretical framework, on a set of tentative hypotheses that the evidence is designed to test or to adumbrate...” (Milton Friedman 1971:1). In the man-made tax, one of the theories on levying taxes is social contract theory. This theory states that taxes are paid in exchange for services provided by the state, such as security and other public services. However, it is not possible to determine the exact benefits each taxpayer gets from the expenditure of tax. The poor are also neglected by this theory for they do not have any taxable income to pay for the exchange. This is the gap that *zakah* is made to fill.

Theories of obligation, vicegerency, solidarity and brotherhood explain the foundation on which *zakah* is built. The first relates that God makes *zakah* compulsory the same way He obligates for Muslims performance of the five daily prayers, Hajj and *sawm*. God is the Creator of all wealth and the ultimate Owner of everything, i.e. all that is in the heaven, all that is on the earth, all that is in between the two and all that is under the soil (*Qur'an* 20:6). Man cannot claim total credit of whatever he achieves. It is obligatory to give Him His due in the form of *zakah*. This is because God provided all the factors of production.

As a follow-up to this first theory, theory of vicegerency states that man is a trustee. Whatever a person has, he is holding it on behalf of the Real Owner (God) as a trustee (*Qur'an* 57:7). God owns man and what he owns. Man cannot create anything, since he only uses existing materials to make goods. The grace of God is manifested in all the aspects of man's life. He did not only create human and non-human resources, He also created the laws of mixing materials together with a view to changing their features. The power of understanding the usage of both human and non-human resources was bestowed on man by God (*Qur'an* 56:63-72, 57:75, 21:80, 16:53, 34:22, 39:62, 25:2, 22:73, 80:21-28, 2:254, etc.). As a trustee, man must spend what he has been graciously given by God for purposes such as *zakah*. Giving out of *zakah* should not be difficult because one is returning part of the property to its Owner in the form of *zakah*.

The solidarity theory rests on mutual support in the form of wealth (*zakah*) and persons. Society contributes in one-way, or the other, in the creation of wealth and earning income by every person (*Qur'an* 4:5, 29, 5:35). Therefore, the society is entitled to a share of wealth created by individuals in the society to assist the poor and to provide public services. Therefore, Islam encourages man to contribute positively to the welfare of fellow Muslims and the community in the form of *zakah*.

The brotherhood theory of *zakah* states that human beings have a common origin (*Qur'an* 4:1). Therefore, by giving out *zakah*, one is extending the hand of generosity to one's brother. They are all children of Adam as stated in the *Qur'an* (36:60). They should assist themselves as brothers. The hand of fellowship must manifest among them. Well-to-do ones must help under privileged people because of the common human bond between them. Another, type of brotherhood, which is stronger than any human blood relation, is the spiritual bond: “Believers are one single brotherhood” (*Qur'an* 49:10). Sharing the same faith means they should help one another. The prophet is reported to have said in his divinely inspired traditions (*Hadith*) thus: The parable of the faithful in their mutual love and mercy is like one single body of one of its members aches, the other members respond with fever and insomnia; The Muslim is a brother to the fellow Muslims. He does not do injustice to him nor does he let him down”. Therefore, showing kindness to man is a form of reminding one that human beings are all related. Man must share the goods God created with others who are in need of them through *zakah*.

This paper's theoretical framework is built on a synthesis of the theory of obligation, vicegerency, solidarity and brotherhood with Adam Smith's Theory of Distribution of Wealth from his book “The

Wealth of Nations” and The Theory of Moral Sentiments as well as physiocratic stipulation.<sup>1</sup> Theory of Distribution of Wealth states that, “What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable<sup>2</sup>. The Theory of Moral Sentiments states that “How selfish so ever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it”<sup>3</sup>. Physiocracy literally means the rule of nature. Its wider application by the physiocrats means man-made law should be in harmony with natural law. Thus, human societies and activities are subjected to the devine laws of nature and should be in harmony with them.

All the above theories are summarized in a schema in Figure 2, which shows the linkages between God, Who expects humans to exert effort on natural resources created by Him to generate wealth out of which a fraction is given to the less privileged. For the giver, God promises a multiplier effect on his wealth (see Qur’an2:261), and to the receiver, his poverty will be reduced and he becomes also empowered if he uses the zakah to produce goods and services and trade leading to his ability to consequently pay zakah in the future. This paper focuses on the effect of zakah on its recipients

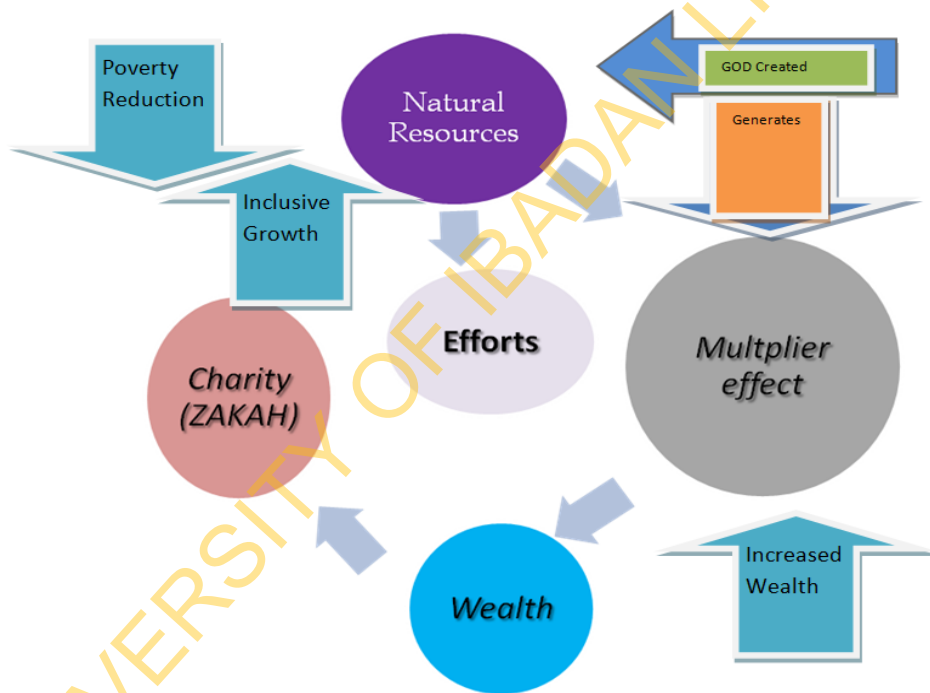


Figure 2: Analytical Framework (Source: Authors)

#### 4. Empirical Analysis

##### 4.1 Methodology

In the assessment of the relationship between *zakah*, poverty alleviation and inclusive growth in Nigeria, descriptive statistics and regression analyses were conducted using secondary data from *zakah* collection and distribution institutions in Nigeria.

##### Model Articulation

<sup>1</sup> See François Quesnay (1694–1774) and Anne-Robert-Jacques Turgot (1727–1781

<sup>2</sup>The Wealth of Nations, Book I Chapter VIII, p.96, para. 36.

<sup>3</sup>The Theory of Moral Sentiments, Part I, Section I, Chapter I, p. 9, para.1).

We define a production function of the economy of the type:

$$Y = AY(K, L) \dots\dots\dots (1)$$

Where  $Y$  is the value added output,  $K$  and  $L$  are measures of capital and labour services,  $A$  is the measures of efficiency and total factor productivity growth (TFPG). We assume  $A$  is one, and differentiate equation (1) totally to obtain:

$$dY = Y_K dK + Y_L dL \dots\dots\dots (2)$$

where  $Y_i$  [ $i=K, L$ ] =  $\delta Y/\delta K$ ,  $\delta Y/\delta L$ , i.e. marginal factor productivities; and  $Y_K, Y_L > 0$ ;

Dividing equation (2) by  $Y$  gives:

$$dY/Y = e_K dK/K + e_L dL/L \dots\dots\dots (3)$$

Where  $dY/Y$ ,  $dK/K$ , and  $dL/L$  are rates of change of output, capital and labour inputs  $e_i$  ( $i=K, L, G$ ) is the elasticity of output with respect capital, and labour. Expressing equation (3) in the estimable natural log form and writing the variables in small case letters to denote rates of change then becomes

$$\ln y_{it} = \alpha_0 + \alpha_1 \ln k_{it} + \alpha_2 \ln L_{it} + \mu_{it} \dots\dots\dots (4)$$

where  $\alpha_{it}$  are the estimable parameters,  $t$  is time,  $i$  is the Nigerian state and  $\mu_{it}$  is the error term. The subscript  $i$  and  $t$  represent Nigerian state  $i$  and time period  $t$  respectively. Equation (4) is decomposed into physical capital and financial capital as follows:

$$\ln y_{it} = \alpha_0 + \alpha_{1a} \ln p k_{it} + \alpha_{1b} \ln f k_{it} + \alpha_2 \ln L_{it} + \mu_{it} \dots\dots\dots (5)$$

The estimable equation (5) generates the magnitude of association between output growth and growth of physical and financial capital as well as labour in the economy. One can include dummies to capture policies such as monetary, fiscal, trade and investment policy regimes to disentangle reform effects on economic growth.

For the econometric work, the estimation method is the OLS, implying that all the assumptions of OLS are theoretically satisfied by equation 5, that is the error term  $\mu_{it}$  is assumed to be linear, normal, independent and homoscedastic which are normally tested empirically. The model is set up to estimate a panel specification that combines both Nigerian state fixed effects and period fixed effects to eliminate omitted variables bias that may arise from unobserved variables that are constant over time as well as those that are constant across states. The model would then be estimated as random or fixed effect with the better model performance selected using the Hausman specification test and F-test.

However, because of the nature of the data available which does not allow us to deploy everything discussed above, we only estimate equation (5) with financial capital as independent variable to generate an 'indicative' impact rather than actual impact of *zakah* on inclusive growth and poverty. Therefore,  $y_{it}$  is real gross domestic product and  $f k_{it}$  is *zakah* receipts by beneficiaries,  $n$  is population such that  $y/n$  is growth of real per capita income and our poverty measure. In the equation, we postulate that inclusive growth and poverty alleviation depends on financial capital:

$$\ln y_{it} = \alpha_0 + \beta \ln Z_{it}^e + \mu_{it} \dots\dots\dots (6)$$

$$\ln (y/n)_{it} = \lambda_0 + \pi \ln Z_{it}^p + \epsilon_{it} \dots\dots\dots (7)$$

Where  $Z_{it}^j$  is *zakah* received by individual  $i$  to alleviate his poverty and invest respectively (i.e.  $j = p$  (poverty alleviation),  $e$  (empowerment)) at time  $t$ ,  $\alpha$ ,  $\beta$ ,  $\lambda$  and  $\pi$  are parameters while  $\mu$  and  $\epsilon$  are error terms satisfying assumptions made above. In equation (6), we posit that for the recipients of *zakah* for



empowerment,  $Z^e$  is made up of physical capital and liquid capital and for these people, *zakah* funds received are used to acquire physical capital with the remainder used as liquid (working capital) in their businesses. For equation (7), *zakah* is used purely for consumption in food, rent, debt payment among others, which impact directly on recipients' welfare.

The *a priori* expectation holds that *zakah* alleviates poverty and growth-financing constraints by making available to the recipients unconditional transferred funds. Hence,  $\beta$  and  $\pi$  are positive.

#### 4.2 Data and Measurements

*Zakah*, poverty and growth data were collected from secondary sources. *Zakah* and *Sadaqah* Foundation located in Lagos, Nigeria provided most of the data while we obtained complementary *zakah* data from the University of Ibadan Central mosque. Both sources had the characteristics of distributing *zakah* across the country, but more so by the Foundation. Gross Domestic Product data and GDP per capita data were retrieved from the World Bank World Development Indicators. In terms of variables measurement, the recipients of *zakah* who were provided with funds to start business and deemed to have eventually created employment, and for education and training, and to build or repair mosques are the ones we refer to as being given *zakah* for empowerment and are assumed to have contributed to inclusive growth. On the other hand, we refer to those who received funds to look after their health or to feed, or pay debt, or to pay for their accommodation as being given *zakah* for poverty alleviation because their sufferings are removed temporarily or permanently. Inclusive growth is measured by growth of real gross domestic product while poverty is measured using per capita GDP. An alternative is to use the National Living Standard survey, which has Muslim respondents who receive transfers from fellow Muslim givers of transfers as a proxy for *zakah*, since it is transfer by fellow Muslims, and find a relationship between the receivers' poverty and the transfers received. The National Living Standard Survey (NLSS) data contain such data but it was done in 2004 and considered dated. The 2010 Harmonised National Living Standard Survey (HNLSS) does not have such information.

#### 4.3 Empirical Analysis

Table 1: Summary of Distribution of Economic Empowerment *Zakah* by State and Year (Naira)

	2009	2010	2011	2012	2013	2014	2015	Total
Abia					825,000			825,000
Abuja							42,400	42,400
Anambra					902,000			902,000
Ebonyi					1,170,000			1,170,000
Enugu							34,800	34,800
Kwara						40,000	39,100	79,100
Lagos	4,878,700	2,896,000	1,397,800	2,550,000	15,262,372	7,196,145	17,665,885	51,846,902
Niger							23,800	23,800
Ogun	40,000						76,500	116,500
Ondo						40,000		40,000
Osun							298,700	298,700
Oyo						1,511,500	1,568,450	3,079,950
Rivers					855,000			855,000
Grand Total	4,918,700	2,896,000	1,397,800	2,550,000	19,014,372	8,787,645	19,749,635	59,314,152

Empowerment zakah were distributed across most of the southern states of Nigeria by the zakah and sadaqah institution covering 2009-2015. Lagos recipients receive the largest amount of the funds for empowerment relative to those in other states. This is because the institution is based in Lagos, which it views as its primary catchment area (Table 1). Similarly, those who receive poverty alleviation zakah in Lagos state constituted the majority followed by Oyo state (Table 2).

Table 2: Summary of Distribution of Poverty Alleviation *Zakah* by State and Year (Naira)

	2009	2010	2011	2012	2013	2014	2015	Grand Total
Abia					175,000			175,000
Anambra					20,000			20,000
Lagos	2,013,600	1,969,000	1,009,000	1,780,000	7,116,920	5,374,689	8,365,689	27,628,898
Oyo						1,175,000	374,700	1,549,700
Rivers					235,000			235,000
<b>Grand Total</b>	<b>2,013,600</b>	<b>1,969,000</b>	<b>1,009,000</b>	<b>1,780,000</b>	<b>7,546,920</b>	<b>6,549,689</b>	<b>8,740,389</b>	<b>29,608,598</b>

Table 3 reveals that about 45.9% beneficiaries enjoyed poverty alleviation *zakah* between ₦50,001 - ₦100,000 while about 43.7% beneficiaries received poverty alleviation *zakah* between ₦10,000 - ₦100,000. However, beneficiaries that received above ₦200,000 only constituted 1.6%, while beneficiaries that received between ₦100,001-₦150,000 and ₦150,001-₦200,000 constituted 4.1% and 4.7% respectively.

Table 3: Distribution of Poverty alleviation *Zakah* in Nigeria

Poverty <i>Zakah</i>	Frequency	Valid per cent	Cumulative per cent
10,000-50,000	169	43.7	43.7
50,001-100,000	178	45.9	89.6
100,001-150,000	16	4.1	93.7
150,001-200,000	18	4.7	98.4
Above 200,000	6	1.6	100.0
Total	387	100.0	

The analysis displayed in table4 indicates that majority of the beneficiaries' constituting 46.1% received between ₦10,000 - ₦50,000 empowerment *zakah*. Beneficiaries' that received empowerment *zakah* between ₦50,001-₦100,000 constituted 40.9%, while about 8.2% beneficiaries' received between ₦100,001 - ₦150,000. However, about 4.2% of these beneficiaries' received above ₦200,000 while just 0.6% received between ₦150,001-₦200,000.

Table 4: Distribution of Empowerment *Zakah*

Empowerment	Frequency	Valid per cent	Cumulative per cent
10,000 – 50,000	303	46.1	46.1
50,001 – 100,000	269	40.9	87.0
100,001 – 150,000	54	8.2	95.2
150,001 – 200,000	4	0.6	95.8
Above 200,000	27	4.2	100.0
Total	657	100.0	

The analysis displayed in table 5 reveals the percentage of both empowerment *zakah* and poverty alleviation *zakah* beneficiaries from 2009 to 2015. In 2015, empowerment *zakah* recorded highest percentage of beneficiaries constituted 28.2% while poverty alleviation *zakah* recorded highest percentage

of beneficiaries i.e. 28.7% in 2013. However, both empowerment *zakah* and poverty alleviation *zakah* recorded the least percentage of beneficiaries constituted 4.4% each in 2012.

The implication of the results is that there exist veritable complementary channels of alleviating poverty and generating inclusive growth that are not captured by the formal tax system. *Zakah* is a channel that is in used by Islamic countries in conjunction with the conventional fiscal policy where *zakah* is used basically for generating inclusive growth and poverty alleviation programmes in addition to funds available from the normal tax systems.

Table 5: Distribution of Years

Years	Frequency		Valid percent	
	Empowerment <i>Zakah</i>	Poverty alleviation <i>Zakah</i>	Empowerment <i>Zakah</i>	Poverty alleviation <i>Zakah</i>
2009	102	37	15.5	9.6
2010	49	32	7.5	8.3
2011	35	21	5.3	5.4
2012	29	17	4.4	4.4
2013	181	111	27.5	28.7
2014	76	70	11.6	18.1
2015	185	99	28.2	25.6
Total	657	387	100.0	100.0

#### 4.4 Regression results

Given a sample size of 657 in model 1, the regression equation gives a positive intercept of 12.469. Empowerment *zakah* has a positive coefficient and this strictly agrees with the theory because the more the number of people empowered, the higher the GDP of an economy. The estimation results reveal that empowerment *zakah* is statistically significant in explaining changes in GDP. The results show that a percentage increase in empowerment *zakah* will bring about an increase in growth rate by 0.388 percent. However, the co-efficient of determination ( $R^2$ ) shows that the explanatory variables jointly account for 15 percent changes in GDP. This is due mainly to the limited number of variables considered. While the result of the F-statistics reveals that the model is statistically significant (Table 6).

Table 6: Regression Results

Model 1: Dependent variable: GDP growth (measure of inclusive growth)			Model 2: Dependent variable: Log GDP per capita (measure of poverty in Nigeria)		
Independent variable	coefficient	t-statistic	Independent variable	coefficient	t-statistic
C	12.469	121.293	C	5.502	515.766
Log of empowerment <i>zakah</i>	0.388	10.768	Log Poverty alleviation <i>zakah</i>	0.234	4.727
$R^2$	0.15		$R^2$	0.55	
F-statistic	115.958		F-statistic	22.343	
N	657		N	387	

For model 2 with a sample size of 387, the positive regression coefficient of poverty alleviation *zakah* implies that the more *zakah* provided towards poverty alleviation, the better the welfare of more Nigerians. The estimation results also reveal that poverty alleviation *zakah* is statistically significant in explaining changes in poverty. The results further reveal that a percentage increase in poverty alleviation *zakah* will bring about an increase in greater welfare of citizens by 0.234 percent. The result of the F-statistics reveals that the model is statistically significant. The co-efficient of determination ( $R^2$ ) shows that the explanatory

variables jointly account for 55 percent changes in Nigerian welfare. This also shows that the model produces a good fit for the data.

Hence, the econometric assessment confirms the existence of a significant improvement relationship between *zakah* and poverty alleviation and of direct growth enhancing relationship between *zakah* and inclusive economic growth. This is because *zakah* transfers assist the poor in general to overcome the problem of collateral and the risks of loan repayment and indebtedness as well as cater for immediate problems of access to food, housing, education, and debt repayment.

## 5. Conclusion and Recommendations

*Zakah* is one of the proficient ways by which poverty can be alleviated in developing countries particularly Nigeria if it is properly harnessed. In fact, of the three modes of alleviating poverty, enhancing financial inclusion and attaining inclusive growth, *zakah* provides the best option for both the poor and the vulnerable poor because it does not involve repayment, interest and collateral. The anxiety of meeting the three demands is non-existent in this mode of cash transfer. Although it is not possible to eradicate poverty, it very possible to eradicate extreme poverty and hunger through *zakah*. The issue of *zakah* is as obligatory as the other pillars of Islam because the lives of the poor depend on it. This pillar of Islam is a legitimate levy, which all rich and conscious Muslims must pay. To refuse to pay it is to rebel against the poor and the state. Therefore, the paper holds that *zakah* alleviates poverty and growth-financing constraints by making available to the recipients unconditional transferred funds. Our recommendation is that efforts should be made by the state to collect it centrally. *Zakah* committees should redesign their system of collecting and disbursing it with a view to making it have more impacts on the intended segment of the society. There is also the need to get feedbacks from the recipients. In addition, the state should make sure that the proceeds of *zakah* are not embezzled or diverted to other non-intended areas. The recipients of *zakah* should also be monitored to make sure they use the funds judiciously.

This study has some limitations. The main one is data. We have use *zakah* collected in one Nigerian state to proxy the whole country because of paucity of data from others. Again, country poverty data are not collected as time series because they are part of periodical national living standard surveys. Hence we have used per capita GDP in this study to proxy poverty. Therefore, the empirical results should be taken as an indicative pattern of what will likely happen if *zakah* is well organized collected and distributed and data collected to study the impact. In order to appropriately conduct this type of research, cross sectional and time series as well as longitudinal data are required. These can either be collected as part of (harmonized) national living standard survey from both the receiver and the giver of *zakah* among the Muslim population or the *zakah* and *sadaqah* institutions can more effectively organize the way they record their receipts and distribution of *zakah* to show annual receipts and distribution, purposes, feedback from recipients and maintain registers of payers of *zakah*. This helps in being able to study the impact also on the giver. Islamic countries' international banks and donor agencies can assist data collection in order to instigate critical mass of research to support the propagation of Islamic tenets worldwide.

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Year	Poverty (%)	Total Population (Millions)	Population in Poverty (Millions)
1980	28.1	65	18.26
1985	46.3	75	34.73
1992	42.7	91.5	39.07
1996	66.9	102.3	67.11
2004	54.4	126.3	68.7
2010	69	163	112.5

Source: National Bureau of Statistics (2012)