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The Application of Zakat Index (ZEIN) to Measure the Effectiveness of Zakat in Alleviating Malaysia's Poverty

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Abstract: The purpose of this paper is to examine the role of zakat (the Islamic tax) in alleviating poverty and inequality in Malaysia using a newly developed index, namely, the Zakat Effectiveness Index (ZEIN). The study formulates an index (ZEIN) to measure the effectiveness of zakat as one of the different items of government expenditure/spending to alleviate poverty. In this paper, Malaysia is chosen as a case study for two reasons: the availability and accessibility of data required for computing ZEIN; and, as of to-date, no index such as this had been used to measure the effectiveness of zakat distribution in Malaysia. The results obtained from the computation of the ZEIN have been able to explain the effectiveness of zakat in alleviating poverty and inequality in Malaysia. Among others, the findings of the study can be used by policymakers to measure and improve the effectiveness of zakat in reducing poverty and inequality, and hence improve their quality of life. The main contribution of this paper lies in the applicability of the index to measure the performance of zakat effectiveness in all Muslim countries whose provision of zakat is embedded in the national agenda to alleviate poverty.

Keywords: Malaysia, Poverty alleviation, Zakat, Zakat effectiveness index (ZEIN).

INTRODUCTION

To begin, a distinction has been made by the United Nations; world's most well-recognized institution, in regards to absolute poverty (needy) and relative poverty (poor). The United Nations Development Program (UNDP-2000) defines absolute poverty as a lack of the income necessary to satisfy basic food needs, while defines relative poverty as a lack of income necessary to satisfy essential non-food needs, such as clothing, energy and shelter. On the other hand, the United Nations Millennium Development Goals (2005) has defined the poor as individuals living in households that command no more than US\$1 per day per person valued at international prices. Given these two definitions, it seems that the latter definition is more restrictive relative to that given by the former. It is also obvious from here that even an institution as reputable as

United Nations lacks consistency in the definition of poverty. However, on another note, the World Bank (2015) has reported that the number of people suffered from global extreme poverty had declined over the last two decades, as shown below:

1990: 1,959 billion = 37.1% of world's population;

1999: 1,747 billion = 29% of world's population;

2012: 902 million = 12.8% of world's population; and,

2015: 702 million = 9.6% of world's population.

As evident from the data, it is for the first time less than 10% of the world's population was living in extreme poverty by the end of 2015, although it used a new income figure of \$1.90 per day to define extreme poverty; up from \$1.25. Specifically, it forecasts that the proportion of the world's population in this category will fall from 12.8% in 2012 to 9.6%. What makes the Report looks more interesting is that in the East Asia and Pacific region, Malaysia included, was highlighted as being key to global progress in terms of poverty reduction. By the end of 2015, 82.6 million were projected to be living in extreme poverty, representing a fall from 7.2% of the population in 2012 to 4.1%. In fact, the poverty reduction achievement was far better than 1990 where 60% of the area's population (999.2 million) lived in extreme poverty.

In the same vein, poverty in Malaysia is a controversial economic issue. The definition of poverty and the level of poverty among Malaysians have been disputed, and the government policies to address poverty through the New Economic Policy (NEP) are challenged by a variety of stakeholders like economists, politicians and sociologists, to name a few. The recent definition of poverty, which was based on the World Bank (<http://www.bbc.com/news/world-34440567>) standard, had specifically mentioned that the 'poverty line income (PLI)' is calculated based on US\$2 or RM6.40 per individual per day. The PLI is determined based on the expenditure patterns of the lowest 20 per cent of households (bottom 20%) for goods and services of non-food items such as clothing and footwear; residence (rent, loan instalment, etc.); utilities and fuel; transport; communications; tools and household equipment and various non-food goods and services for which the price level can be divided into states and strata. Theoretically, for a household of 4.3 members not to be declared as poor it would approximately need RM825.60 per month. However, the poverty thresholds based on the standard PLI may not reflect the actual cost of living in Malaysia. In other words, the amount of RM6.40 per day is far from sufficient to provide food, let alone clothing, health and shelter.

Further, as had been shown in the Tenth Malaysia Plan (2011-15) and Eleventh Malaysian Plan (2016-2020), the current and forthcoming economic scenario is very challenging. The crisis in the global financial markets and the decrease in oil and commodity prices could affect the growth and economic stability, if not properly managed. Therefore, the Malaysian government should pursue to implement and strengthen not only its revenue enhancement programs, but also the social safety and welfare of its citizen, particularly the poor. This is considered imperative to ensure that the quality of life of the Malaysian people is preserved, if not better. Indeed, it is here that the role of zakat institution, which is an integral part of the Islamic socio-economic system, is essential in solving the poverty-related problem.

In the context of Malaysia, Zakat administration is a State matter, particularly relating to the passing of regulations and statutes. Zakat institution, as has been argued by many authors like Al-Jarhi and Zarqa

(undated), Ataul Haq (1998) and Sadiq (1987), among others, can play an important role in complementing the Government's poverty eradication effort although its scope is for the poor and needy Muslims only. We note in passing that besides the poor and needy, there are other six zakat beneficiaries allowed by the Syariah (Al-Quran, At-Tawbah, verse 60). While the first four groups mentioned in the verse are referred as 'muqaddam', the remaining four groups are termed as 'muakkehar.' In this respect, it is interesting to note that although the distribution of *Zakat* is to cater for all eight groups, priority should be given to the *muqaddam*, as explained in a Hadith narrated by Abu Ma'bad:

“(the slave of Ibn Abbas) Allah's Apostle said to Muadh when he sent him to Yemen, “You will go to the people of the Scripture. So, when you reach there, invite them to testify that none has the right to be worshipped but Allah, and that Muhammad is His Apostle. And if they obey you in that, tell them that Allah has enjoined on them five prayers in each day and night. And if they obey you in that tell them that Allah has made it obligatory on them to pay the zakat which will be taken from the rich among them and given to the poor among them. If they obey you in that, then avoid taking the best of their possessions, and be afraid of the curse of an oppressed person because there is no screen between his invocation and Allah.”

(Hadith Bukhari and Muslim 2: 573)

According to the Hadith, the major thrust of zakat is to help the poor and needy by uplifting their standard of living where increasing their income is one of many options. Specifically, with an increase in income, they should have enough to be able to live and cater for their basic needs. In other words, the system of zakat, if managed properly, should be able to help the poor and needy to overcome poverty. It is in this spirit, this study proposes that to achieve the optimal objective of poverty alleviation through zakat, the distribution of zakat itself has to be done in the most effective manner possible. This must be done by first assessing the two groups of asnaf (faqir/needy and miskin/poor) that are qualified to receive zakat based on Islamic principle for the purpose of fulfilling their basic needs.

Having said this, the paper proceeds as follows. In the next section, a literature review pertains to zakat management in Malaysia is discussed. It will be followed by elaborating the methodology of the study and the formulation of the Zakat Index (ZEIN). Next, the analysis of the study's results will be deliberated, and the paper ends with conclusion and policy implication.

MANAGEMENT OF ZAKAT IN MALAYSIA: A LITERATURE REVIEW

In Malaysia, statistically, Saad and Abdullah (2014) have shown that in most of the states, with Terengganu, Kelantan, Pulau Pinang, Negeri Sembilan, and Melaka being the exceptions, the allocation for fisabilillah asnaf/recipients far exceeded the amount allocated to faqir and miskin. Selangor distributed the largest fund to fisabilillah asnaf with RM89.3 million compared to other states. In contrast, the fakir asnaf in Selangor only received RM34.9 million of zakat funds, less than half of what was distributed to fisabilillah asnaf. Similar pattern is exhibited in the distribution of zakat fund in Wilayah Persekutuan with the largest amount RM63.3 million (36.2 per cent) goes to fisabilillah, followed by RM40.4 million (23.1 per cent) for cost of managing zakat. The faqir and miskin asnaf received only RM36.1 million (20.1 per cent) and RM25.9 million (14.8 per cent), respectively, of zakat fund in Wilayah Persekutuan. It is observed that in 2009, Wilayah Persekutuan distributed the largest amount of zakat fund to amil asnaf (RM40.4 million) compared to Selangor (RM35.5 million) even though in terms of total collection and distribution of zakat fund Wilayah Persekutuan is behind that of Selangor.

Next, with regard to the distribution of zakat according to asnaf, Saad and Abdullah (2014) findings indicate that zakat institutions do not follow the principle of Al-Awlawiyyat (prioritization) in distributing zakat fund. Priority is not given to the faqir and miskin asnaf, but instead to fisabilillah asnaf with broad Islamic objectives. As far as this issue is concerned, there is a serious need to investigate whether the indigence of the faqir and miskin asnaf have been satisfied before the zakat fund is channeled to other ansaf. In the context of Al-Awlawiyyat and in congruence with the opinions of the fuqaha, necessary measures must be taken by the zakat institutions to minimize the funds used for the fisabilillah asnaf, as any shortages/deficit in the latter asnaf needs can always be offset using the waqaf funds.

In this relation, interestingly, Embong *et al.* (2013) in their study have found that the percentage of zakat collected and in turn distributed to the needy and poor was quite small as shown in Table 1.

Table 1
Percentage of zakat collected distributed to poor and needy

	2007	2008	2009	2010
<i>State</i>	<i>% of Distribution to needy and poor</i>	<i>% of Distribution to needy and poor</i>	<i>% of Distribution to needy and poor</i>	<i>% of Distribution to needy and poor</i>
Johor	33.8	31.6	33.8	38.8
Kedah	48.9	46.2	41.4	42.5
Kelantan	59.0	81.9	61.7	67.6
Malacca	26.3	35.5	40.8	45.3
Negeri Sembilan	34.3	33.2	33.2	30.5
Pahang	28.6	34.6	17.1	21.4
Penang	50.4	49.4	51.1	48.4
Perak	65.6	69.9	58.2	66.8
Perlis	23.2	30.8	31.2	25.8
Selangor	45.7	33.3	38.2	38.5
Trengganu	58.4	46.9	61.7	56.5
Sabah	58.4	57.7	56.0	62.4
Sarawak	48.1	39.1	29.1	32.0
Kuala Lumpur	33.0	25.7	22.1	33.8

Source: Embong *et al.* (2013).

As can be seen from the table, in terms of percentage of zakat being distributed to the needy and poor, two states, namely Kelantan and Perak, were top on the list, while Perlis, Kuala Lumpur and Pahang were the lowest for the period 2007-10. Specifically, for the same period, on average, the first two states recorded more than 60% of the zakat collected and then distributed to the needy and poor, while in the case of the last three states it was less than 35%. Such a wide disparity in the way the amount of zakat being distributed to the hardcore poor in all states in Malaysia was intriguing for us to investigate. Given the facts that in Perlis, Kelantan and Sarawak, on average, each of the needy and poor zakat recipients received RM755, RM1,056 and RM468 per year, respectively (Laporan Zakat PPZ 2010), few questions begged

answers. The question are: were the zakat funds received by the poor and needy recipients significantly impact their standard of living? How could they survive with these limited financial zakat assistance and aids? Was zakat being effectively distributed to the poor and needy asnaf?

These issues will be addressed in this study where the basic needs of these two groups of asnaf will be calculated. It includes, among others, the cost of foods, shelter, education and non-food items, which will then be compared with the amount of financial assistances, namely zakat that they received from the zakat institutions of the respective states. However, due to the “non-standardization” reporting procedures by the respective states’ zakat institution, only data for six (6) states will be compiled and analyzed. The states are: Kedah; Sabah; Sarawak; Penang; Malacca; and, Selangor.

The “non-standardization” reporting procedures was very much related to the ways in which the zakat collection and distribution are administered. Historically, before the 1990’s, the amount of zakat collected was considerably low due to a number of factors (Ahmad and Shofian, 2010). One of them is the payment of fitrah (tithes) and zakat from paddy yield which were given utmost priority, while the collection of zakat from private property, businesses and income were sorely overlooked. However, after the 1990s, the collection of zakat was privatized, pioneered by Pusat Pungutan (Collection Center) Zakat Wilayah Persekutuan (1991), and subsequently followed by Lembaga Zakat Selangor (1994), Pusat Urus Zakat Pulau Pinang (1994), Pusat Kutipan Zakat Pahang (1995), Pusat Zakat Negeri Sembilan (1998) and Pusat Zakat Melaka (2001).

As far as the collection and distribution of zakat in Malaysia are concerned, there are four different forms of entity being entrusted to perform the tasks. First, a corporation that has been established under zakat enactment, for example Jabatan Zakat Negeri Kedah. It was established under the Kedah Zakat Enactment 1955 where the enactment was completely separated from the Kedah Administration of Islamic Law Enactment. Likewise, the Tabung Baitulmal Sarawak has been introduced by virtue of Sarawak Islamic Council (Corporation) (Amendment) 1984 Ordinance with a task of managing the collection and distribution of zakat as well as Baitulmal asset (Ahmad and Shofian, 2010). Second, a corporation that has been established under the state administration of Islamic law enactment, such as Lembaga Zakat Selangor (under the virtue of Trustee (Corporation) Act 1952). Similarly, Pusat Urus Zakat Pulau Pinang (PUZ) is a subsidiary to Majlis Agama Islam Pulau Pinang that has been set up under Companies Act 1965. Third, it is a corporation that has been established under an Act or State administration of Islamic law enactment with a duty to collect zakat only. All collections would be channeled to MAIN (the Bahasa Malaysia acronym for Majlis Agama Islam Negeri-the State Islamic Religious Council) which in turn will distribute the zakat collected to the rightful beneficiaries. Examples are PPZMAIWP (Harta Suci Sdn. Bhd.); PZM–MAIM (Pusat Zakat Melaka Sdn. Bhd.); PZNS–MAINS (Pusat Zakat Negeri Sembilan Sdn. Bhd.); PKZ–MAIP (Pusat Kutipan Zakat Pahang Sdn. Bhd.). Finally, fourth, the collection and distribution of zakat is executed by MAIN through its own unit or department of Baitulmal or zakat centers such as Majlis Agama Islam (Islamic Religious Council) Johor; Majlis Agama Islam Perlis; Majlis Agama Islam dan Adat Melayu Perak (MAIP); Majlis Agama Islam dan Adat Istiadat Melayu Kelantan (MAIK); Majlis Agama Islam dan Adat Istiadat Melayu Terengganu (MAIDAM); and, Majlis Uagama Islam Sabah (MUIS).

Theoretically, such arrangements have put the effectiveness of zakat collection and distribution of different states into question. In fact, studies by Saad and Abdullah (2014), and Embong *et al.* (2013) have shown that one of the contributing factors to the unresolved issues to the alleviation of poverty among the poor was the different set-ups of zakat collection and distribution were made. Study by Supriato, Kader

and Harun (2013) on the impact of zakat distribution on aggregate consumption of the poor people in Malaysia has shown that zakat distribution by zakat institutions is mostly in the form of money for basic needs and monthly cash support had a positive impact on aggregate consumption. However, the impact is small and short run. Hence, they recommended that zakat distribution should not be confined to the fulfilment of consumable needs only but should also cover other forms of monetary aid that can generate a continuous flow of income for zakat recipients. It is for this reason that the measurement of the effectiveness of zakat distribution to the poor and needy in this study will be confined to six states only, and they will be treated separately.

THE METHODOLOGY

In general, poverty refers to inadequate income of the household while absolute poverty means extreme poverty in which people cannot even afford to fulfil their basic needs. As such, a distinction should be made between the two most deserving recipients of zakat, which is the focused groups of this study (the poor and needy), as summarized in Table 2.

Table 2
Description of the two most deserving zakat recipients

<i>Category of Recipients</i>	<i>Description</i>
Needy/Fuqara (G1)	A person who does not have any property and source of income, or, even if s/he has a source of income it would not fully meet her/his basic needs.
Poor/Masakin (G2)	A person who has property or means of livelihood but is not able to meet his/her own needs or that of his/her family members. This individual is not required to perform Hajj and Zakat, but instead is entitled to receive zakat and fitrah.

The two categories of zakat recipients formed the subset of the term '*muqaddam*' as mentioned in the preceding section. They will be the subject of this study's assessment of the effectiveness of zakat distribution in Malaysia's six states.

In order to measure the effectiveness of zakat in alleviating poverty in Malaysia this study has formulated an index called Zakat Effectiveness Index, or for short ZEIN. A study on the effective distribution of zakat is timely because currently the collection of zakat indicates that Malaysian public has become increasingly aware of and more interested in fulfilling their zakat obligation. That is, as collection of zakat reaches an increasing huge amount of money (more than one billion Ringgit), there seems to be an urgent need to investigate the effectiveness of zakat distribution among the states. This aspect of research is pertinent in ensuring that zakat works to achieve its goals to alleviate poverty among the poor and needy in Malaysia.

Mathematical Expositions of the ZEIN

The index, ZEIN, is a pioneering work of Abdullah and Al-Malkawi (2009) and further refined by Abdullah *et al.* (2012). While a detailed description of how the index is derived is available in the previously mentioned articles, in this paper, we will only reproduce the modified version of the mathematical model with most of the important equations remained intact.

To begin, the Zakat Effectiveness Index is derived as follows:

First, the expenditures on basic needs (E_B) of the poorest population of a Muslim country, Group 1 (*G1-the needy*), are mathematically expressed as:

$$E_B = \sum_{i=1}^m \sum_{j=1}^n E_{Bit}^{G1j} \quad (1)$$

where: $i = (1, 2, \dots, m)$ are the basic needs (B), which, in this study, include food, clothing, shelter, medical and education; $j = (1, 2, \dots, n)$ are states or provinces or regions or countries; and, $t =$ time period.

Second, government spending on safety nets (G), which, in this study, is confined to zakat disbursement (Z) to the poorest population of the country, G1, can be computed as follows:

$$G_Z = \sum_{j=1}^n G_{Bit}^{G1j} \quad (2)$$

where: $j = (1, 2, \dots, n)$ and t remain as in equation (1).

Third, the number of zakat recipients (Z_R) associated with $G1$ can be expressed as:

$$Z_R = \sum_{j=1}^n Z_{Bit}^{G1j} \quad (3)$$

where: $j = (1, 2, \dots, n)$ and t remain as in equation (1).

Fourth, Zakat Index (ZI) is obtained by subtracting equations (2) from (1) and then dividing with equation (3), as shown below:

$$ZI = \frac{E_B}{Z_R} - \frac{G_Z}{Z_R} \quad (4)$$

While, the first term of the right side of equation (4) implies the average expenditures of the zakat recipients associated with G1 on basic needs, the second term implies the average government spending in terms of zakat to G1.

Fifth, the Zakat Effectiveness Index ($ZEIN$) is derived by dividing through equation (4) with the first term of the right side of the equation. Specifically:

$$ZEIN = \frac{E_B/Z_R}{E_B/Z_R} - \frac{G_Z/Z_R}{E_B/Z_R} \quad (5)$$

Sixth, a further refinement to equation (5) will give rise to equation (6), the final equation:

$$ZEIN = 1 - \frac{\dot{G}_Z}{\dot{E}_Z} \quad (6)$$

In general, G_Z is smaller than E_Z , otherwise poverty would not be a problem as zakat is effectively distributed (*i.e.*, there is no zakat deficiency). As such, the index measures the shortfall of the amount of government spending devoted to zakat as compared to the total consumption/expenditure on basic needs that is required for people in poverty to have decent minimum livelihood. As in the case of other indices, the $ZEIN$ has a wide-range scale. It ranges from negative, zero, one and positive values. While a large index

implies poor performance, a small index indicates the opposite. Perhaps, a simple example using four different hypothetical cases may illustrate the point at hand more distinctly. We also note here that the same steps but with different notations can be used to compute the ZEIN for Group 2, namely the poor.

Case 1:

If $\dot{G}_z = 1$ and $\dot{E}_z = 1$, then the ZEIN is 0, which implies that zakat is barely effective in satisfying the basic needs of the G1 and G2. In other words, the amount of zakat received by the poor and needy is JUST SUFFICIENT to cover their basic needs.

Case 2

If $\dot{G}_z < 0$ and $\dot{E}_z = 1$, then ZEIN is > 0 , which implies that the amount of zakat distributed by the government is ineffective. That is to say, they (G1 and G2) received as good as NEGATIVE amount of zakat from the government with the implication that they had to borrow money to make their ends meet (to meet the basic needs).

Case 3

If $0 < \dot{G}_z < 1$ and $\dot{E}_z = 1$, then ZEIN is $0 < ZEIN < 1$, which implies that the amount of zakat distributed by the government is effective. To put it differently, the amount of zakat received by G1 and G2 is MORE THAN SUFFICIENT to cover their basic needs.

Case 4

If $\dot{G}_z = 0$ and $\dot{E}_z = 1$, then ZEIN is = 1, which implies that the government is NOT EXTENDING any amount of zakat (or zero amount of zakat) to the zakat recipients with the consequences that they had to rely fully on the income earned from doing odd jobs or “begging” to make their ends meet (to meet the basic needs).

It is clear from the above hypothetical cases that the ZEIN stretches from negative to zero (0), one (1) and any positive values. We note in passing that unlike our previous study (Abdullah *et al.*, 2015) where the Index had three (3) hypothetical cases, in the present study there is one (1) more hypothetical case being added to make it four (4). In fact, this is the first improvement made on the previous version of the Index, namely the Basic Needs Deficiency Index (BDNI). The second improvement made is on the number of items included to the poor and needy expenditures on basic needs. While in the previously mentioned study the items included were five (5), namely food, clothing, housing (rental), medical and education, in this study one (1) more item (transportation) has been added to make it six (6). Hence, with the improvements made on the index, the results and its interpretations may be different from that of the previous study. However, it tends to be more conclusive.

In addition to data published by JAWHAR (Jabatan Waqaf, Zakat dan Haji-Department of Awqaf, Zakat and Hajj), this study relies on sources of other publications, which include, but not limited to, unpublished theses, journal papers, reports and discussion, seminar and conference papers. It is thought necessary to widen the sources of data as:

- The officially published data are insufficient to meet our data requirements; and
- to avoid inconsistencies in poverty trends caused by the use of one data set that are not comparable in sample size or survey period and location.

To construct the ZEIN for the periods 2008-2014, data that is related to several variables associated with poverty in Malaysia are gathered. They are:

- Total expenditure of the poor households on basic needs. In this study, the basic needs refer to an amount of money used by a poor household, which will be confined to Group 1 (G1 – the needy) and Group 2 (G2 – the poor) to maintain a minimum livelihood of its members. This will include expenditures on food, shelter (rental), clothing, health care, education and transportation.
- Government spending on poverty alleviation programs, *i.e.* the safety nets, and its sources. Foremost, is the source of fund used to alleviate poverty, which, in this study, is the zakat collected at the State levels. The amount collected in turn will be distributed to the poor and needy zakat recipients in the respective states.

RESULTS AND ANALYSIS

The results of the ZEIN for six states in Malaysia are shown in Table 3.

Table 3
Zein of six states in malaysia

State/year	Kedah		Sabah		Sarawak		Penang		Malacca		Selangor		Simple average for Malaysia (by Year)	
	G1	G2	G1	G2	G1	G2	G1	G2	G1	G2	G1	G2	G1	G2
2008	–	–	–	–	–	–	0.38	0.31	–	–	–	–	0.38	0.31
2009	(1.32)	0.51	0.80	0.86	0.56	0.78	–	–	–	–	(1.44)	(3.29)	(0.35)	(0.29)
2010	(1.39)	0.41	0.77	0.83	0.58	0.79	0.28	0.48	–	–	–	–	0.06	0.63
2011	(0.60)	0.27	0.89	0.83	–	–	(0.10)	0.29	(1.84)	0.66	–	–	(0.41)	0.51
2012	(2.32)	0.19	0.85	0.84	0.57	0.72	(0.19)	0.27	(2.62)	0.38	–	–	(0.74)	0.48
2013	0.76	0.02	0.53	0.85	0.56	0.72	(0.69)	0.26	(7.57)	(0.24)	(2.49)	(2.89)	(1.48)	(0.21)
2014	0.71	0.41	0.71	0.91	0.67	0.85	0.03	0.40	(9.18)	0.06	(1.37)	(1.34)	(1.41)	0.22
Simple Average (by State)	(0.67)	0.30	0.76	0.85	0.59	0.77	(0.05)	0.34	(5.30)	0.22	(1.77)	(2.51)	(0.56)	0.24

The analysis will be based on two observations: by groups, years and states (average); and, by country-Malaysia (average).

By Groups, Years and States (average)

Table 3 shows the ZEIN for six (6) states and seven (7) years period (2008-14). Two states, namely Sabah and Sarawak, are the worst performers as the ZEIN registered are greater than zero for both groups, G1 (the needy) and G2 (the poor); implying that the amount of zakat received by them throughout the period

was not sufficient to cover their expenditures on basic needs. On the other hand, Selangor is the best performer as the ZEIN for both groups registered a value less than zero, indicating that the amount of zakat received by them throughout the period was sufficient to cover their expenditures on basic needs. In other states (Kedah, Penang and Malacca), the ZEIN is a mixture between G1 and G2. Specifically, as the ZEIN showed a value less than zero in most years, the needy (G1) in these states, as compared to the poor (G2), seemed to have received an amount of zakat that is more than sufficient to cover their basic needs. Interestingly, the results obtained here are consistent with another study's finding in that the zakat distribution has a positive impact on aggregate consumption, although small and short run (Suprayitno, Harun and Abdul Kader, 2013).

This interesting result is further substantiated by the ZEIN registered for all states (simple average). As evident from the table, with Sabah and Sabah being the exception, other states registered negative ZEIN values for G1 as well.

By Country-Malaysia (average)

In general, the results for ZEIN in the Malaysian context are quite consistent with that of the individual states. However, in two years (2009 and 2013), the ZEIN registered negative values, suggesting that both groups (G1 and G2) were receiving an amount of zakat that was more than sufficient for them to satisfy their basic needs. Finally, on average, the ZEIN for Malaysia seems to have favored G1 (-0.56) than G2 (0.24). An explanation for this situation is that, given the same amount of zakat received by the two asnaf, G2 suffers the most because their expenditures on basic needs are higher than G1.

To sum up, the study using ZEIN as the measurement of zakat effectiveness has been able to show that the distribution of zakat in Malaysia is fairly effective, particularly the one that is extended to G1 (the needy).

CONCLUSION AND POLICY RECOMMENDATION

This paper makes three major contributions:

1. It develops a new methodology to measure the effectiveness of zakat in alleviating poverty in Malaysia, focusing on the poor households' consumption/expenditure on basic needs, government spending in terms of zakat and the number of zakat recipients as the three main determinants.
2. The results obtained from the computation of the ZEIN have been able to explain the effectiveness of zakat in alleviating poverty and inequality in Malaysia.
3. The ZEIN, as derived here, can be applied to measure the performance of all Muslim countries whose provision of zakat is embedded in the national agenda to alleviate poverty.

Based on the results and findings of the study, we submit the following policy recommendations. First and foremost, as zakat proves to be an effective way of helping the poor to rid them of severe poverty, the collections and disbursements of zakat must be pursued. Second, because the amount of zakat received by G1, especially those who dwelled in certain states was far below the sum required for them to live a decent live, measures to increase the amount extended to them should be high on the Federal government agenda. Third, the old-fashion of distributing zakat based on states should be removed. In

place, a policy of zakat distribution based on the number of G1 and G2 households inhabiting in all states in Malaysia should be formulated and implemented. To this end, JAWHAR should take the lead.

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