

Utilization of Zakat and Islamic Endowment Funds for Poverty Reduction: A Case Study of Zakat and Hubs Commission, Kano State-Nigeria.

Hassan Nuhu Wali,
Department of Agricultural Economics,
Audu Bako College of Agriculture, Dambatta, Kano State, Nigeria.
Email: hnwali@yahoo.com

Abstract

It is generally agreed that poverty, unemployment and economic inequality are the major socioeconomic problems of emerging countries; however, zakat is regarded as an instrument for poverty reduction in most of Muslim societies. The aim of this research is to analyze the role of zakat institution in poverty reduction in the emerging countries with particular reference to the Kano State Zakat and Hubs Commission. In the process of doing that both primary and secondary data are utilized, primary data were obtained from reports and memos of the commission, while secondary data are data found in the text books and other publications. The study found that zakat plays a vital role in reducing poverty, unemployment and economic inequality in the society. Since the inception of Kano State Zakat and Hubs Commission huge amounts of money have been spent in form of economic empowerment, medical assistance and so forth. Millions of people have benefited from such assistances. Despite this, the performance of the commission has been below expectation, due to the fact that the total zakat collected by the commission has been below the amount required to eradicate poverty in the state, also the commission heavily relies on grant from the state government. Therefore, introduction sophisticated means of collection zakat, training of zakat personnel, mobilizing members of the public (rich) toward payment of zakat could really help to improve the performance of zakat institution of Kano State, Nigeria.

Keywords: Zakat, endowment funds, poverty, economic inequality.

INTRODUCTION

Islam has made it mandatory to set aside 2.5% of annual savings of every Muslim which will be given to poor and needy as a poor-rate, these funds are what popularly known as zakat. The funds are collected and managed by 'Baitul Mal' (Zakat Commission in now a day). Zakat is paid out of the agricultural produce, stock in trade and tangible assets owned (including savings). In every society whether developing or developed the two economic classes exists, that is rich and poor. The main task here is to reduce the level of poverty and economic inequality among the members of the society, though human beings are not equal and they will never be equal. Zakat has been used as a tool of reducing poverty and economic inequality in most of the Muslims societies right from the period of Prophet Muhammad (Peace be upon him). Islamic scholars equally agreed that zakat has been in place since when the prophet was in Mecca before his migration to Medina about 10 B.H. Islamic calendar, though it was not clearly explained in holy Koran during that period until after Prophet migration to Medina. That was the period when Muslims built their empire at Medina and organizes themselves both economically and politically. In Medina zakat collectors or administrators were sent to survey all Muslims as well as to collect and distribute it as outlined by al-Qardawi (1999).

Furthermore, a hubs is closely related to zakat that is the reasons why hubs funds are managed by zakat institutions in most of the Muslims societies. Hubs is what we called endowment funds in English. Like zakat hubs fund was also in placed since the period of Prophet Muhammad (PBUH). On several occasions, the Prophet (PBUH) appealed to believers and drew their attention to the need for provision of certain public goods for the benefit of the society, as a result, more infrastructures were provided by the companions of Prophet through endowments -

funds (Islahi, 1996). The fundamental differences between zakat and hubs are that the former is mandatory while the latter is voluntarily, but they are usually managed by the same institution.

In Kano state and some northern part of Nigeria the institution of zakat existed before the colonialism. During that period the region had an organized political system (called Sokoto Caliphate) which was governed based on Islamic system. The emirates under the caliphate were in charge of administering zakat funds through 'baitil mal'. Zakat was the major source of revenue to emirate (government) by that time, as well as an instrument of fiscal policy. The emirate distributes the money generated through zakat to the poor (needy and disable bodies) as provided by Islamic rules and regulations. With the coming of colonialists, different taxes ('haraji' and 'jangali') were introduced to fund the colonial administration, this brought to a sort of double or multiple taxation and confusion within the context of emirate fiscal policies. This made it difficult to distinguish zakat taxes from the

colonial taxes collected by the emirate. Since then people started to distribute their zakat directly and discarded the emirate. This unorganized individual form of distribution of zakat continues to exist until when zakat committee was created in Kano State as a nongovernmental organization. Latter Kano State Government under merged the zakat committee into Zakat and Hubsu Commission as a governmental organization to be in charge of administration of zakat and hubs funds in state.

This paper is meant to examine the impact of zakat funds for poverty reduction in Nigeria with particular reference to Zakat and Hubsu Commission Kano State. The recent survey of National Bureau of Statistics reveals that 100 millions of Nigerians are living in poverty despite the strong economic growth in the country. It also reveals that 61.9% of the country population are absolutely poor, 71.5 % are relatively poor while 65.8% are living on one dollar per day (Daily Trust, 14th February, 2012). Proper utilization of zakat and Islamic Endowment fund could really help to address the issue of poverty in the emerging countries in general or Nigeria in particular.

2. CONCEPTUAL FRAME WORK AND LITERATURE REVIEW

2.1 The Concept of Zakat

Zakat means offering obligatory prescribed amount of charity deducted from the wealth upon which zakat is due. In its simplest term, zakat means betterment, to increase or grow. This implies that Zakat increases wealth in the society due to the fact that the idle money will be utilized if they are given as zakat, the poor who benefited from zakat is likely to invest the money into productive use. This will also make the economy to grow past. In line with this, Abudu (1996) sees the concept of zakat as to purify, to grow or to improve. Here Abudu is trying to hold the view that zakat improve the standard of living of the entire society. He however maintained that zakat is not a charity but rather a right to poor and needy person in the society.

The technical meaning of zakat was provided by al-Qardawi (1999) in which he defined zakat as "determined share of wealth prescribed by Allah to be distributed among the categories of those entitled to receive it". From this we can point out that zakat funds are governed by certain principles of Islamic law, and the funds are to be benefited by certain category of people not everyone, but poor and needy are the first persons to benefit from it. Moreover, Abudu (1996) defined zakat as "a welfare tax payable by a Muslim having an estimated amount of wealth above a prescribed minimum". He maintained that zakat is given primarily to improve the condition of living of poor and needy regardless of their religion, hence non Muslim can benefit from zakat funds. Khan (2005) sees zakat as an obligatory levy on all surplus wealth and agricultural income of Muslims. The definition provided by Khan is similar to that of Abudu in the sense that both of them equally agreed that zakat is a levy against the wealth of rich and to be given to poor whether Muslims or not. And they all agreed that zakat is a Compulsory levy or tax, in other wards its mandatory. Khan (2005) viewed that Zakat is an obligation related to defined types of property from which a part is to be paid every year to the poor as their right. Khan definition brought us to point that there are properties that are subject to zakat and those that are not subject to zakat, this is because Khan said "defined types of properties".

From the views of those scholars/authors we can extract some silent points, firstly 'nisab' is the minimum level of wealth or worth of property in which zakat must be charged. Therefore not all properties or money are subject to zakat levy unless they reach 'nisab', money or property below nisab is exempted from zakat. Secondly, it could be recognized that payment of zakat is not voluntary but rather compulsory just like payment of tax in conventional economic system, each Muslim must pay it provided that his properties or money in question has reach certain level (nisab). However, in secular country like Nigeria it is difficult or impossible to compel people to pay zakat, this is due to their legal frame work, though in some countries that embrace Islamic political and economic system this is possible. Another thing to note is that needy and poor persons are the ultimate beneficiaries of zakat funds. It is how ever pertinent to know that zakat tax is given only once in a year, but in case of agricultural produce it is given immediately after every harvest. This means that if you harvest twice a year you are going to give twice a year. The crucial question to ask here is that, is the farmer going to pay zakat even if he makes profit or not? The answer is yes, because the zakat is charge on the produce or wealth not the profit provided that it reaches certain level (nisab). This is one of the distinguishing features of zakat from the other instruments of fiscal policy (taxation) in conventional system, in case of taxation in conventional system nothing will be charged if profit is not realized.

Hubsu (endowment) is another term closely related to zakat, Islahi (1996) defined Hubsu as "taking the corpus of any property from personal ownership, transferring it permanently to the ownership of Allah and dedicating its usufruct to purposes recognized by the shari'ah as pious or charitable". The income from hubs property must be spent according to the terms and conditions of the donor, this donation is voluntary unlike zakat which compulsory. It's important to note that hubs and zakat funds are administered by the same institution that is the reason why here in Kano we have Zakat and Hubsu Commission. However, Khallat (2004) argued that hubsu is a voluntary act of charity that comes under the general terms of charity and infaq (feeding poor). He maintained

that hubsi means “stand still, hold still, not to let go” this implies that the property in question under hubsi can not be sold or to let.

Islahi (1996) pointed out that the Islamic endowments fund is basically categorized into two types such as family hubsi which made for the benefits of oneself and family, and the second category is called public hubsi which is made for supporting the general good and welfare of the poor. These two types of endowment funds are recommended in Islamic system, they can be administered by zakat and hubsi commission based on the conditions of the donor as explained earlier.

2.2 Calculation of Zakat

Ma'asumBillah (2002) held that 2.5% is charged on stocks by the share holder if company did not pay the zakat. Moreover, 1% suggested by Abudu on livestock is subject to controversy this is because the Islamic scholars argued that the zakat of live stock varies from one animal category to another. For instance, the nisab for goat/sheep is forty (40) and one is given out as zakat. For cattle the nisab is 30 cattle in which one is given out as zakat. In case of camels one goat is given out of four (4) of camels (Abu-Hasan).

However, Ma'asumBillah (2002) suggested three methods of calculating zakat as far as contemporary corporations are concerned; the first method is based on balance sheet, the second is based on profit/ loss statement and the last based on shareholders' funds.

First Method (based on the Balance Sheet): Current Asset – Current Liability + Short Term Investment x Muslim Earning Shares X 2.5% (Zakat rate)

Second Method (based on Profit / Loss Statement): Profit after tax x % Muslim Shares x 2.5%

Third Method (based on the shareholders fund): Shareholders Fund – Fixed Asset + Profit after tax and dividend x % Muslim Shares x 2.5%

In Pakistan the company pay zakat on behalf of the stock holders of the company on the shares holds by Muslims (Ma'asumBillah,2002), though this cannot be done in Nigeria due to our legal frame work, the law does not provide that. More so, the Author held that Islamic scholars equally agreed that there is zero zakat on fixed asset of the company.

2.3 Impact of Zakat on Poverty Reduction

The focus of development economists now a days is centered around alleviation of poverty, unemployment and economic in equalities, this could be a reason why some economists like Professor Dudley Sean redefined economic development in term of reduction or elimination of poverty, unemployment and inequalities, he further argued that if one of these problems is on the increase in a given society that society will not be considered as developed even if their per capita income increased (Jhingan, 2008). However the ultimate aim of zakat is to reduce these major socio economic problems in the society, it reduce poverty either directly (by given capital to poor and needy to support their business) or indirectly (through provision of public goods, free education and training).

According to Said Nursi the origin of all revolutions and corruption, is jus sayings that “So long as I'm full, what is it to me if others die of hunger?” Said pointed out that the only remedy for the saying is the obligatory payment of zakat (Baskan, 2002). If some members of the society will be fully fed while other remained unfed there is going to be dichotomy or antagonism in the society, which may lead to violence or social disorder. Zakat can really help in solving this problem, because zakat funds are meant to improve the lives of less privileged people in the society through various means such as feeding, medical assistance, educational assistance, empowering labor force. Properly utilization of zakat institutions could really help to create harmony among the two economic groups (rich and poor) in the society. This will enhance peaceful coexistence in the society.

Abu-Sharif (1996) argued that zakat is a tool of reducing arbitrary dominance of capital, in the sense that Islam orders the rich people to give part of their wealth to the poor in form of tax. It's charged when ordinary wealth exceeds essential need of the owner that is 'nisab'. This implies that the money will be transferred from the area of surplus to where it's needed, this could really reduce the level arbitrary dominance of capital resource and simultaneously increase the level of resource utilization in the society and also improve the welfare of the poor people in the society. There are some poor and needy person in society with skill and willingness to be productive but due one reason or the other they became financially handicapped, they were unable to be productive, as soon as these categories of people get money either inform of zakat or charity they will put them into productive use since they are willing to do so.

To Khan (2005) the main purpose of zakat is to provide financial support to two categories of people such as needy and poor, this view is closely related to that of Abu-Sharif. Khan also viewed that zakat supposed to be the major instrument for providing social security, eradication of poverty and reducing economic inequality through transferring wealth to where it is needed. The views of these authors are all about transferring of the wealth from area of surplus to where it's needed. Ideally when money (wealth) reaches certain level they are beyond the owners' basic needs, so he will either keep them idle or spend them on buying frivolous things. The main argument here is that the idle money should be put into productive use so that the general well-being of the

society will be enhanced. In order to improve the welfare of the society people have to be empowered, zakat serve as an instrument of empowering them.

3. METHODOLOGY

This paper utilizes secondary data. The secondary data were generated through library materials for the purpose of literature review. However, data from the memo, circulars and reports of Kano State Zakat and Hubsi Commission were used for the purpose of presentation and discussion. The data were presented and discussed with the aid of charts. The charts are used to demonstrate the amount of money disbursed by the commission to the beneficiaries of Zakat during the period under review. This will make us to understand the extent to which Kano State Zakat Commission helps in poverty reduction.

4. RESULTS AND DISCUSSION

Results in this context refer to various information received from the Zakat Commission about their operations including disbursement of zakat funds as well as programs of the commission. In this section of the paper we are going to see to what extent the commission utilizes zakat funds to alleviate poverty in Kano state of Nigeria.

Annual report of commission for the year 2004 revealed that the law established the commission has empowered it to collect zakat not by force but through persuasion by way of sensitizing the public through preaching, lecture and the like. This is the reason why the commission has been organizing several lectures, courtesy call to rich persons and the like. However, section 9.0 of the report outlines ways through which the needy/poor present their request for zakat, this include the following;

- a. reporting to the offices of Local Government Zakat Council or Village Committee
- b. through the emirate council
- c. through the Islamic organizations
- d. through ward heads, village heads or community leaders
- e. Through Islamic medical Association (ISMA) for medical assistance.

These are the ways through which needy reach the commission for assistance. This make the people (needy) close to the commission, which is the reason why the people are not expected to go to the head quarters of the commission directly. The needy passes through various screening before they got zakat, this is to ensure that the money is given to the right person. The steps of - Screening includes interview, verification as well as investigation (Report of Kano State Zakat Commission, 2004).

4.1 Procedure of Distributing Zakat

Section 11.0 of the report of Kano State Zakat Commission (2004) reveals that zakat is distributed through two ways such as an organized public disbursement conducted periodically to encourage people to give out zakat and on day to day basis at the commission head quarters in Kano, if you go to the commission every now and then you see this kind of disbursement is taking place. The disbursements are carried out by:-

- By cash
- By cheque
- Through hospital authorities. in case of medical assistance
- In case of farm products individual are assessed and appropriate measures of grains is given
- In case of livestock, pair of male and female animals is given. but sometimes single piece is given to butchers to empower him (them)

4.2 Public Disbursements

As stated earlier, the commission gives zakat to beneficiaries through public disbursement periodically in order to encourage members of the public to pay their zakat. Since the inception of the commission about five series of public disbursements took place that is in. This can be shown in chart below;

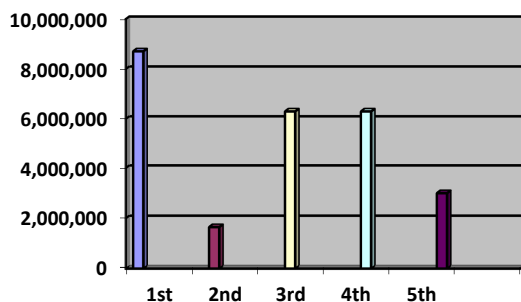


Figure 1: Public Disbursements of Zakat Funds by zakat Commission of Kano State (in Naira)

source: Kano State Zakat and Hubsu Commission (2009) Comprehensive Achievements Report

Vertical axis of the chart above, represent amount disbursed in millions of naira, while horizontal axis represent the period of disbursement. During the first public disbursement, the sum of N 8,710,215 was disbursed by the commission in which 537 peoples benefited, this disbursement is regarded as the first and largest public disbursement of the commission since its inception. However, second, third and fourth public disbursement targeted some categories of people such as Imams, Naibs and Muazzins, in which sum of N1,650,000, N6,300,000 and N6,300,000 were disbursed respectively. And lastly the fifth public disbursement was given to 300 people in which majority of them are disable persons. (Comprehensive Report of the Commission, 2009).

However, the first public disbursement of the commission was prioritized for economic empowerment, the largest share of the disbursement was sent to economic empowerment (over N5.1 million). This implies that zakat pays more attention to poverty eradication and creation of wealth in the society. It has been recorded that about 312 people were given a capital to embark on a new business or to expand their business.

4.2 Total Zakat Spent in 2006

The total zakat spent by the commission during the year under review stood at N236,300,000. Out of which N37,000,000 were given to 3120 peoples such as disables, sick and elderly in the month of August. In September, 2006 N12,500,000 were given to 2,500 person in 5 Local Government Areas of metropolitan, while N152,500,000 were given to needy and poor in other 33 Local Government Areas that are located in rural area. During the month of October sum of N -34,300,000 were given to 4,400 needy persons. (Kano State Zakat and Hubsu Commission, 2009).

4.3 Total Zakat Spent in 2007

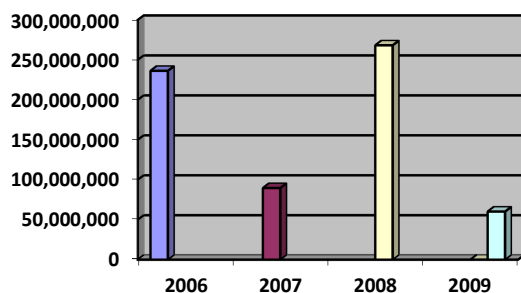
During the year under review total amount of zakat spent by the commission stood at N89,700,000. This include N40,000,000 as financial support to 8000 needy persons, N600,000 as assistance, N20,000,000 to 3,000 scholars , N3,000,000 to 4,500 patients, N100,000 to 20 people as 'ibn Sabil', N7,000,000 to 1,400 disable persons and N10,000,000 to 447 as economic empowerment (tallafin jari).In the same year 3000 bags of grains were given to 3000 persons during the Ramadan pasting period. (Kano State Zakat and Hubsu Commission, 2009).

4.4 Total Zakat Spent in 2008

In 2008 the commission distributed abandoned pilgrims lug gages to 3000 converts to Islam at T/Wada and Sumaila Local Government Area as well as prisoners across the state. Also 6,000 bags of grains were distributed to 6,000 people (needy). However, Sum of N268,250,000 were disbursed as zakat during the year under review. N9,000,000 were spent for medical assistance, N30,000,000 were given as Ramadan disbursement to 3,000 deserving persons, N9,250,000 were given to 1850 Imams (as Limamai package) and N220,000,000 to 44,000 poor and needy persons in 44 Local Government Areas of the State (Kano State Zakat and Hubsu Commission, 2009).

4.5 Total Zakat Spent in 2009

During the year under review the commission distributed 900 bags of grains to 900 needy persons. Also sum of N60,200,000 were spent by the commission as zakat, this includes Daily assistance which stood at N1 million to 200 people, N10,000,000 to 400 beneficiaries as economic empowerment (N25,000 each), N40,000,000 to 4000 deserve people as Ramadan Package, N1,500,000 as medical assistance to 450 patients and lastly sum of N7,700,000 to 1540 (N5000 each) beneficiaries as Zakat currency (Kano State Zakat and Hubsu Commission, 2009). During this year the commission concentrates to a large extent on Ramadan package, it took the lion's share of the total zakat spent in the year by the commission.



Source: Kano State Zakat and Hubsu Commission (2009) Comprehensive Achievements Report

Figure 3: Summaries of Zakat Funds from 2006 to 2009 (In Millions of Naira)

It can however be understood that the amount of zakat funds disbursed in several years by the commission is not sufficient for poverty alleviation in Kano State by considering population of the state and people living in poverty line in the state. The state is recorded with highest population density in the country, according to 2006 National Census about 12 million people lives in the state, in which majority of them are poor, unemployment is on the increases in the state as factories in Sharada, Challawa and Bompai Industrial Areas of the State are closing down.

5. CONCLUSION AND RECOMMENDATIONS

This paper has come to the conclusion that zakat plays a vital role in reducing poverty, unemployment and economic inequality in the society. The contribution of zakat to the societal development would never be over emphasized. Since the inception of Zakat and Hubsu Commission of Kano State a huge amount of money was spent in form of economic empowerment, medical assistance, Ramadan feeding, daily assistance and so forth. Millions of people have benefited from such assistances. Despite this, Zakat Commission of Kano State is facing a gross number of obstacles. The performance of the commission since its inception has been below the expectation; this is because the total zakat disburses by the commission has been very low by considering the population of the state and number of destitute in the state.

The commission should collaborate with vocational centers to provide training in various vocations to the unemployed youth. The commission will be financing the training while the vocational centers will provide the training, during the training some stipends would be given to the beneficiaries and lump sum at end of the program to enable them to establish a business as saying that ' you better teach them how to catch a fish than to be giving them a fish'.

The disbursement of the commission should be prioritized on economic empowerment rather than giving to scholars ('ulamaa'), this will help to convert zakat receivers (beneficiaries) into zakat payers. It will also increase zakat collections in the long run

The commission should increase its courtesy call to rich persons in the state so as to encourage them to pay zakat through the commission. Also courtesy visit should be paid to the companies operating in the state to encourage them to bring their donations to the commission. Campaign in the news papers, radio, internet and television could really help.

Accountability and transparency should be enhanced in the management of zakat funds through reporting to the members of public. Therefore, the commission should be publishing its audited financial statement in the news paper so that the members of the public will be satisfied on the way and manner in which zakat funds are managed.

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