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THE IMPACT OF *ZAKĀT* DISTRIBUTION ON SOCIAL WELFARE: A CASE STUDY OF SELANGOR *ZAKĀT* AGENCIES, MALAYSIA

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Abstract

This study empirically examines the effectiveness of yearly zakāt distribution as an instrument for social welfare in the state of Selangor, Malaysia. The study applied the autoregressive distributed lag (ARDL) approach to examine these relationships over the period from 2010 to 2018. Overall, the study found that the zakāt distribution contributes significantly to social welfare through education at a significance level of 5% and contributes inadequately through income level at 10% level of significance. This indicates that the current zakāt distribution system in Selangor provides only a marginal influence on increasing the income of the poor. Furthermore, the zakāt distribution was statistically insignificant to social welfare through healthcare. These findings suggest that the current distribution channels of health are insufficient to improve social welfare and should be improved by offering social health insurance policy for zakāt beneficiaries. This can be done via ratification insurance plan between zakāt agencies and insurance companies to cover the basic health needs for zakāt recipients.

Keywords: *Zakāt* Distribution, Social Welfare, Income, Health Care, Education

1.0 Introduction

Zakāt is a financial instrument in the Islamic financial system suited to resolve social issues such as poverty and equitable wealth distribution to achieve social welfare. The primary indicator of social welfare is to have income enough to cover basic needs, healthcare and inclusive education[1]. Social welfare in Islām serves humanity in obedience to the commandment of Allah (ﷻ). *Zakāt* is a religious economic activity encouraging Muslims to be accountable for the welfare of society[2].

In this regard, in several OIC countries, *zakāt* collected and distributed to the needy according to the administrative conduit of the religious authorities. However, there is no clear procedure for collecting *zakāt* and distributing it to the beneficiaries in OIC countries and the degree to which it achieves social welfare targets has not been evaluated. *Zakāt* collection and distribution to the genuine poor are dependent on the existing legal frameworks of the respective country. With the absence of proper religious, society depends on their religious leaders or *imām* to pay their *zakāt*. The *imam* is also tasked with the responsibility of ensuring the collected *zakāt* goes to the needy. However, without a database of *zakāt* beneficiaries and donors, this task has limited efficacy[34].

Malaysia is often regarded as a leader in the *zakāt* management system[5]. It has expanded the implementation of *zakāt* into a social establishment and an Islamic socio-economic too to enhance the socio-economic welfare of Muslims. The first initiative to

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[1] M. Mahmoud, Z. Iqbal, A. Rostom and X. Fu, "The Role of Islamic Finance in Enhancing Financial Inclusion in Organization of Islamic Cooperation (OIC) Countries, The World Bank, 2011.

[2] K. Shawal, "Governing *Zakāt* as a Social Institution: The Malaysian Perspective", *Social and Management Research Journal,* 6(1), (2009), 15-32.

[3] N.R. Mohd Zain and E.R.A. Engku Ali, "An Analysis on Islamic Social Finance for Protection and Preservation of *Maqāṣid al-Sharī'ah*", *Journal of Islamic Finance*, 6 (2017), 133-141.

[4] H. Shafiqul, Y.J. Amuda and R. Parveen, "Persecuted Muslim Minority: *Zakāt, Waqf, and Ṣadaqah* as financial Instrument for Human Development".

[5] L. Muharman, N.I. Yaacob and Y. Omar, A.A. Dahlan and A. Rahman, "Enhancement of *Zakāt* Distribution Management System: Case Study in Malaysia", in *International Management Conference 2011 Proceedings*, pp. 1-10. 2011.

institutionalise *zakāt* as a social establishment is the setting up of a *Zakāt* Collection and Distribution Unit, and the appointment of *zakāt*-officials in every state to ensure the implementation *zakāt* rules and regulations. The specific constitutional requirements mandate that every state in the country has the authority to practise and implement various *zakāt* rules and regulations without breaching any provisions in the constitution[6]. *Zakāt*, *waqf* and *ṣadaqah* have been playing positive roles in addressing the social imbalances and have long been employed to assist the poor and needy in several ways such as by providing access to the labour market, by enhancing living standards and by the implementation of better access to good healthcare and education[7]. This study investigates the impact of current *zakāt* distribution on social welfare pin the basis of the Selangor's *zakāt* annual reports.

2.0 Literature Review

2.1 Zakāt Distribution

The distribution of *zakāt* to eight eligible beneficiaries is explicitly indicated in *Surah al-Taubah*, verse 60: "Indeed, charity, alms are only for the poor, the needy, charity managers, the *muallaf* who persuaded him, for (freed slaves), those who owe, for the cause of Allah (ﷺ) and of those who by the way, an ordinance that required Allah"[8]. However, there is limited guidance concerning how *zakāt* should be distributed among these eight groups. On the subject of distributing *zakāt*, many contradictions exist. Al-Shafi'i maintained that "*zakāt* should be distributed to all the eight categories if they exist, otherwise to those who are available." This is supported by a number of Hanbalites. On the other hand, Malik and Abu Hanifah

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[6] W. Holger, "*Zakāt* and the Question of Social Welfare", *Social Welfare in Muslim Societies in Africa* (2002), 7-38.

[7] S. Raedah, N. Ahmad and M. Mohamad, "A Study on *Zakah* of Employment Income: Factors that Influence Academics' Intention to Pay *Zakah*", In 2nd International Conference on Business and Economic Research (2nd ICBER), (2011) Proceeding, 2492-2507.

[8] Al-Qur'ān, (*Al-Taubah* 9:60).

insist that there is no necessity to include all of the said beneficiaries[9].

It is, however, the general consensus of the majority of scholars that the priority is to help the poor rather than include all those eligible. Consequently, it is a common practice in most countries that the bulk of *zakāt* is dispensed to those who are considered to live below the poverty line[10]. Al-Qardawi believed that the target of *zakāt* distribution should be all eight *asnāf* if excess funds are available and the level of their needs are equal[11]. However, it is not necessary that individual shares should be equal, but the quantum should be determined by their number in society and the urgency of their needs[12]. Moreover, the fair distribution of Muslims wealth is crucial for prosperity. History has shown that among the factors that resulted in the demise of the Umayyad dynasty was its inability to successfully manage the *Baitulmāl*[13].

According to the scholar, if the *nisāb* is to separate the rich from the poor, then it should be considered as the poverty line in a Muslim society. This would render the *nisāb* a robust indicator of people's wellbeing. If one's wealth is below the *nisāb*, then he is suffering from poor wellbeing[14]. It is most likely that the income is not enough to cover his expenses, and he may be in debt. The person who incurs debt to fulfil his personal and family basic needs, i.e. clothing, food and shelter, is eligible to receive *zakāt*. This category of recipients is known as *ghārimīn*. The ultimate objective of *zakāt*

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[9] N.B. Abu Bakar, "A *Zakāt* Accounting Standard (ZAS) for Malaysian Companies", *American Journal of Islamic Social Sciences*, 24(4), (2007), 74.

[10] R. Taha, M. F. Zulkifli, M. R. Embong and M. Nor, "*Zakāt* Distribution in the East Coast: Recipients' View", *Pertanika Journal of Social Science and Humanities*, 25 (2017), 255-266.

[11] Y. Al-Qardawi, "*Fiqh Al-Zakah: A Comparative Study of Zakah, Regulations and Philosophy in The Light of Qur'an and Sunnah* ", (Volume 1), translated, M. Kahf, (2004).

[12] Ibid.

[13] F. Johari, M.R. Ab Aziz, M.F. Ibrahim and A.F. Mohd Ali, "The Roles of Islamic Social Welfare Assistant (*Zakāt*) for the Economic Development of New Convert", *Middle-East Journal of Scientific Research,* 18(3), (2013), 330-339.

[14] M. Ahmad, "Economic Welfare from Islamic Perspective." *Available at SSRN 1530092* (2009).

distribution should be to achieve the social welfare of the Muslim society through ensuring decent income, healthcare and education.

2.2 Social Welfare Determinants in Malaysia

The Social Welfare Department Malaysia (JKMM) set up in 1946 and has gone through quite a number of changes structurally since its inception, including the roles it plays and the functions it performs, which have extended. It has evolved to be a more protective body, providing creative services to address social concerns and contributing to communal progress and development. Currently, the Economic Planning Unit Malaysia (EPU), the main government arm in the Prime Minister's Department, is responsible for the publication of the *Malaysia Quality of Life Report* (MQLR) and *Malaysia Wellbeing Report* (MWR). MWR 2013 was the most recent report available[15]. However, MQLR and MWR are EPU's commitment to the evaluation of the impact of economic development on the nation's social advances through a set of social indicators including economic wellbeing and social welfare[16]. The welfare approach is a new mechanism to improve the social functioning of the financial recipients. It aims to change the beneficiaries' mentality towards greater independence[17]. Entrepreneurial approaches are an effective way to enable beneficiaries to live independently[18].

To date, there has been no empirical study on the impact of *zakāt* distribution on social welfare in Malaysia. Therefore, we empirically study the impact of *zakāt* distribution and social welfare through the level of income, healthcare expenditure and education expenditure in Selangor. This is in line with the Vision 2020

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[15] S. Mekhilef, A. Safari, W. E. S. Mustaffa, R. Saidur, R. Omar, and M. A. A. Younis, "Solar Energy in Malaysia: Current State and Prospects", *Renewable and Sustainable Energy Reviews,* 16(1), (2012), 386-396.

[16] M. Ravallion, *Poverty Comparisons*. Routledge, 2017.

[17] S.M. Hashim, *Income Inequality and Poverty in Malaysia*. Rowman & Littlefield, 1998.

[18] E. Duflo, M. Greenstone and R. Hanna, "Indoor Air Pollution, Health and Economic Well-Being", *Surveys and Perspectives Integrating Environment and Society,* 1(1), (2008).

aspiration for fair social achievement, improved income levels, healthcare and inclusive education[19].

2.3 Healthcare

Healthcare status is an important aspect in determining social welfare. Studies have been consistent in showing how subjective social welfare and physical and mental health are closely related[20]. A person with poor health may be prevented from active or constant work. Poor health is a driver of poverty.[12] Health constraints restrict labour opportunities resulting in lower income. There is a reciprocal positive impact between healthcare and social welfare. In other words, although social welfare or wellbeing is not an exact condition that includes better health and wellness, good health promotes economic activity and helps stave off poverty[21]. Hence, it is an effective component of social welfare[22,23]. Given this relationship, channelling *zakāt* funds to healthcare means that all *asnaf* can benefit. There is lack of empirical study to prove the relationship between *zakāt* and healthcare, however, there is such study discussed *zakāt* distribution from *Maqāṣid al-Sharī'ah* perspective which is "Preservation of Physical-self " that physical self refers to the daily needs of which humans need like healthcare, nutrition, quality of house or shelter, amnesties, utilities, clothing and transportation[24].

[19] R. Islām, "Prioritizing Issues of Malaysian Vision 2020: An Application of the Analytic Hierarchy Process." In *Proceeding of the International Symposium on the Analytic Hierarchy Process* (2009).

[20] S. Cohen, C.K. Ronald and U.G. Lynn, "Strategies for Measuring Stress in Studies of Psychiatric and Physical Disorders", *Measuring Stress: A Guide for Health and Social Scientists* (1995), 3-26.

[21] P. O'Campo, A. Molnar, E. Ng, E. Renahy, C. Mitchell, K. Shankardass, A. John, C. Bambra and C. Muntaner. "Social Welfare Matters: A Realist Review of When, How, and Why Unemployment Insurance Impacts Poverty and Health", *Social Science and Medicine,* 132, (2015), 88-94.

[22] A. Currie, A. Michael, and W.P. Stephen, "Is the Child Health/Family Income Gradient Universal? Evidence from England", (2004).

[23] K. Kamkary, and S. Shokrzadeh, "Investigate Relations between Mental Health and Happiness Feel in Tehran Youth People", (2012), 1880-1886.

[24] M. Zakaria, "The Influence of Human Needs in the Perspective of *Maqāṣid al-Syari'ah* on *Zakāt* Distribution Effectiveness." *Asian Social Science,* 10(3), (2014), 165.

Similarly, another study[25] shows that a healthy person capable of doing some work must be given enough *zakāt* that enables him to work and earn an income of his standard of living. Likewise, this is supported by a study[26] that better assessment of human needs should be evaluated in the perspective of *Maqāṣid al-Sharī'ah* that consists of religion, knowledge, family, wealth and physical-self which is referred to protecting health.

Hence, this study analyses the impact of *zakāt* distribution on social welfare through health expenditure in Selangor.

2.4 Income

Social welfare has been largely measured through the size of aggregate income, typically measured by gross domestic products (GDP). The effect of income on social welfare is significant and varied. With greater income, one would be able to meet not only his/her basic needs but also fulfil several wants. Previous research has shown that income positively affects social welfare[27,28]. Social welfare and family stability support regular income and wellbeing. Rich Muslims should contribute to such stability by paying *zakāt*. Other studies have also confirmed the positive relationship between social welfare and income[29,30].

Similarly, the rise in personal income has led to remarkable improvements in social welfare. In short, the concept of income as a determinant of social welfare has had a positive impact on social

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[25] W.M. Wan Ahmad and S. Mohamed, "Classical Jurists' View on the Allocation of *Zakāt*: Is *Zakāt* Investment Allowed", *Middle-East Journal of Scientific Research*, 12(2), (2012), 195-203.

[26] A.R. Rosbi, and A. Sanep, "Kesan Kerohanian Program Bantuan Modal Asnaf Oleh Lembaga *Zakāt* Selangor (LZS)." In *Proceedings the World Universities 1st Conference (2011)*, 22-24.

[27] C, Bjørnskov, "The Happy Few: Cross–Country Evidence on Social Capital and Life Satisfaction", *Kyklos* 56(1), (2003), 3-16.

[28] A.E. Clark, P. Frijters and M.A. Shields, "Relative Income, Happiness, and Utility: An Explanation for the Easterlin Paradox and Other Puzzles", *Journal of Economic Literature,* 46(1), (2008), 95-144.

[29] E. Diener and R.B. Diener, "Will Money Increase Subjective Well-Being?", *Social Indicators Research,* 57(2), (2002), 119-169.

[30] R. Cumins, "Personal Income and Subjective Well-Being", *Journal of Happiness Studies*, 1(2), (2000), 133-158.

welfare. In this regard, *zakāt* distribution is one of the channels that has been used as an economic tool to impact positively on the income level of *zakāt* beneficiaries[31]. Given this background, this paper investigates the effect of *zakāt* distribution on social welfare via the level of income in Selangor.

2.5 Education

In Malaysia, there is wide acceptance of the crucial role that education plays as a catalyst of social transformation and progress. Social transformation may encompass changes in nature, social establishment, social norms, or social relationships[32]. To achieve sustainability in economic development for example, a country must be prepared to invest in and enhance its human resources. It is in this context that education is of paramount importance. Education enhances the quality of people's lives, bringing wide social benefits to both individuals and society[33]. Furthermore, education plays a very significant role to secure progress economically and socially, and enhances the achievement of equitable income distribution[34]. Furthermore, it plays a major role in eradicating poverty by granting access to different employment opportunities. Improved public education will positively enhance all other sectors by increasing the skills and attitude of the public, for the betterment of social welfare[35]. Social change implies adjustments in social norms and education is the catalyst of social and cultural changes that occur within the social framework[36]. One of the major questions that emerges is "Are the social benefits of college

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[31] A.Q. Suhaib, "Contribution of *Zakāt* in the Social Development of Pakistan." *Pakistan Journal of Social Sciences,* 29(2), (2009).

[32] K. Tremblay, D. Lalancette and D. Roseveare, "Assessment of Higher Education Learning Outcomes", *Feasibility Study Report,* 1, (2012).

[33] Z.F. Hamira and R. Eid, "Muslim World: A Study of Tourism and Pilgrimage among OIC Member States", *Tourism Management Perspectives,* 19 (2016), 144-149.

[34] D.R. Winkler, "The Social Benefits of Higher Education: Implications for Regional Finance." (1973).

[35] Bowen, Howard. *Investment in Learning: The Individual and Social Value of American Higher Education*. Routledge, 2018.

[36] J.R. Behrman and N. Stacey, *The Social Benefits of Education*. University of Michigan Press, 1997.

education greater for low-income and low ability students?" From the logic and the current experience, the answer would be "Yes, indeed the benefits of college education are greater for students of low income and low ability who should therefore be the beneficiaries' financial support for education[37]. Given the above, we highly recommend *zakāt* funds be channelled to educating low-income households for improved social welfare. There are a number of ways through which this can be done, including the provision of scholarships, lower tuition rates, low-interest loans, or compensatory education.

3.0 Data and Method of Analysis

The yearly data of the current study were collected from different resources over the period from 2010 to 2018. The data of *zakāt* distribution was obtained from the annual reports of Lembaga Zakat Selangor. GDP data were collected from the website of the Department of Statistics Malaysia, while government expenditure for education and health sectors were obtained from the World Bank's website.

3.1 Regression Model for Predicting the Social Welfare Measurements: $Y = a + \beta X_i + \epsilon$

    Where, Y = is the dependent variable comprising GDP, health expenditure, and education expenditure.

    a = Intercept of Y which is constant

    β = Beta coefficients of X_i

    Xi = Independent Variables (*Zakāt* Distribution)

    ϵ = denotes for error term

3.2 Preliminary Tests

The data analysis will start with descriptive statistics to describe the behaviour of the variables such as mean, minimum, maximum, standard deviation, and testing the variables' data normality distribution using Skewness, and Kurtosis as well as Jarque-Bera

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[37] B.L Wolfe and R.H. Haveman, "Social and Nonmarket Benefits from Education in an Advanced Economy." In *Conference Series-Federal Reserve Bank of Boston*, 47, 97-131. Federal Reserve Bank of Boston (2002).

tests. This is followed by unit root tests to examine the variables' order of integration utilising the Augmented Dickey-Fuller (ADF) tests and Phillips-Perron (PP) Unit Root tests.

3.3 The Bond Test and ARDL Framework of the Study

We examine the long-run relationship between *zakāt* distribution and social welfare through income level, education and health expenditure using the ARDL approach. The ARDL model can be applied regardless of the stationary properties of the variables in the model (either I(0) and I(1) or a mixed order of integration) and allows for inferences on long-run estimates, which is not possible under alternative co-integration models such as the VAR and VECM framework[38]. Thus, this study investigates the long- and short-run dynamics using the ARDL bounds test developed by Pesaran[39]. The ARDL framework of *zakāt* distribution and its effects on social welfare measurements such as GDP, education expenditures, and health expenditure are mathematically presented in the following formulas:

3.3.1 Unrestricted ARDL Models frameworks for L-GDP, Health and Education

$$\Delta L - GDP_t = \alpha_0 + \alpha_1 t + \sum_{i=1}^{p-1} b_i \; \Delta L\_GDP_{t-i}$$

$$+ \sum_{i=0}^{p-1} e_i \, \Delta Zak\bar{a}t \; Distribution_{t-i} + \delta_1 L - GDP_{t-1}$$

$$+ \delta_2 \; Zak\bar{a}t \; Distribution_{t-1} + \mu_t$$

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[38] M.H. Pesaran and Y. Shin, "An Autoregressive Distributed-Lag Modelling Approach to Co-Integration Analysis", *Econometric Society Monographs,* 31 (1998), 371-413.

[39] M.H. Pesaran, Y. Shin and R.J. Smith, "Bounds Testing Approaches to the Analysis of Level Relationships." *Journal of Applied Econometrics,* 16(3), (2001), 289-326.

$$\Delta \text{L} - \text{Health}_t = \alpha_0 + \alpha_1 t + \sum_{i=1}^{p-1} b_i \ \Delta \text{L\_Health}_{t-i}$$

$$+ \sum_{i=0}^{p-1} e_i \, \Delta Zak\bar{a}t \ \text{Distribution}_{t-i}$$

$$+ \delta_1 \text{L} - \text{Health}_{t-1} + \delta_2 \, Zak\bar{a}t \ \text{Distribution}_{t-1}$$
$$+ \mu_t$$

$$\Delta \text{L} - \text{Education}_t$$

$$= \alpha_0 + \alpha_1 t + \sum_{i=1}^{p-1} b_i \ \Delta \text{L\_Education}_{t-i}$$

$$+ \sum_{i=0}^{p-1} e_i \, \Delta Zak\bar{a}t \ \text{Distribution}_{t-i}$$

$$+ \delta_1 \text{L} - \text{Education}_{t-1} + \delta_2 \, Zak\bar{a}t \ \text{Distribution}_{t-1}$$
$$+ \mu_t$$

3.3.2 Long-Run Estimation

$$\text{L} - \text{GDP}_t = \alpha_0 + \sum_{i=1}^{m1} \alpha_1 \ \text{L} - \text{GDP}_{t-i}$$

$$+ \sum_{i=0}^{m2} \alpha_2 \, Zak\bar{a}t \ \text{Distribution}_{t-i} + \omega_t$$

$$L - \text{Health}_t = \alpha_0 + \sum_{i=1}^{m1} \alpha_1 \ L - \text{Health}_{t-i}$$

$$+ \sum_{i=0}^{m2} \alpha_2 \ Zak\bar{a}t \ \text{Distribution}_{t-i} + \omega_t$$

$$L - \text{Education}_t = \alpha_0 + \sum_{i=1}^{m1} \alpha_1 \ L - \text{Education}_{t-i}$$

$$+ \sum_{i=0}^{m2} \alpha_2 \ Zak\bar{a}t \ \text{Distribution}_{t-i} + \omega_t$$

3.3.3 Short-Run Estimation

$$\Delta L - \text{GDP}_t = \beta_0 + \sum_{i=1}^{p-1} \beta_1 \Delta L - \text{GDP}_{t-i}$$

$$+ \sum_{i=0}^{p-1} \beta_2 \Delta Zak\bar{a}t \ \text{Distribution}_{t-i} + \psi \ ECM_{t-1} + \vartheta_t$$

$$\Delta L - \text{Health}_t = \beta_0 + \sum_{i=1}^{p-1} \beta_1 \Delta L - \text{Health}_{t-i}$$

$$+ \sum_{i=0}^{p-1} \beta_2 \Delta Zak\bar{a}t \ \text{Distribution}_{t-i} + \psi \ ECM_{t-1} + \vartheta_t$$

$\Delta L - \text{Education}_t$

$$= \beta_0 + \sum_{i=1}^{p-1} \beta_1 \Delta L - \text{Education}_{t-i}$$

$$+ \sum_{i=0}^{p-1} \beta_2 \Delta Zak\bar{a}t \text{ Distribution}_{t-i} + \psi \, ECM_{t-1} + \vartheta_t$$

Where, ΔL-GDP, ΔL-Health, and ΔL-Education are the first difference of the L-GDP, L-Health, and L-Education variables. α_0 refers to the constant term, $\alpha_1 t$ the intercept and time trend that may be added, t- denotes the time, while the $(b_i \, and \, e_i)$ represent the coefficient of the first difference variables of the short-run parameters and p denotes for the maximum number of lags order. The second part (terms δ) corresponds to the coefficient to the long-run relationship and finally the μ_t symbolises white noise residual.

4.0 Result and Discussion

4.1 Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to understand the behaviour of the variables in terms of mean, median, minimum, maximum, and standard deviation, as well as the normality distribution of the data. Table 1 reports the summary descriptive statistics of the variables and indicates that all the variables have positive mean and median over the sample period. Table 1 showed that the average *zakāt* distribution was around 515 million Ringgit while the standard deviation of 1.34E+08 shows that there was a vast dispersion of the *zakāt* distribution around the mean. The highest *zakāt* distribution for the period of study was 676 million Ringgit while the lowest amount was 307 million Ringgit. In addition, the skewness value of -0.363135 for the *zakāt* distribution was negative, indicating that the *zakāt* distribution will keep declining in the near future. Similarly, the skewness value of the other variables measuring

social welfare in Malaysia (income level, education expenditure, and health expenditure) was negatively skewed. This indicates that an inefficient social welfare system will be expected in the near future. The Jarque-Bera test results for normality indicate that all variables under the study were normally distributed since the probability values for each variable is more than the critical value of 5% as illustrated in Table 1.

Table 1: Summary of Descriptive Statistics

	ZAKĀT	GDP	HEALTH	EDUC
Mean	5.15E+08	9863.403	53.37460	91.21694
Median	5.92E+08	9951.544	53.25833	91.92918
Maximum	6.76E+08	11183.73	55.43718	94.39024
Minimum	3.07E+08	7326.744	50.47154	84.50389
Std. Dev.	1.34E+08	1180.490	1.396342	3.200882
Skewness	-0.363135	-1.014080	-0.630929	-0.896288
Kurtosis	1.555255	3.383239	3.454232	3.124419
Jarque-Bera	0.980533	1.597616	0.674479	1.210803
Probability	0.612463	0.449865	0.713738	0.545855
Observations	9	9	9	9

4.2 Unit Root Test (Test for Stationarity)

The results of unit root tests are reported in Table 2. It indicates that L-GDP and L-Education are stationary at level, while other variables such as L-*Zakāt* distribution and L-Healthcare expenditure are stationary at first difference. In other words, the stationary properties of the variables under the study are mixed integrated, namely as I(0) and I(1).

Table (2) Unit Root Test Results

Variables Name	On Levels		On First Differences	
	Intercept and Trend		Intercept and No Trend	
	ADF	PP	ADF	PP
L-*Zakāt*	1.842034	1.602654	-1.677356*	-1.666893*
L-GDP	-0.027284	-6.640770***	-2.546896*	-3.39836*
L-HEALTH	-0.580984	-0.843855	-2.65233**	-2.68483**
L-EDUC	-5.897896**	-5.005344**	-7.00573***	-4.209565***

Note: 1)- the critical values for unit root tests at 1%, and 5% levels of significance are -4.07 and -3.46 (with trend) and 3.51, -2.89 (without trend), respectively, for both the Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) tests. 2) - *** and ** indicate statistical significance at 1 % and 5 %, respectively.

4.3 Optimal Lags Length Determinants

This study utilised the OLS regression under the unrestricted ARDL model to determine the optimal lag length for each model based on the Akaike information criterions. The overall results are presented graphically in Figure 1 below and suggest that the best model for GDP, health and education specifications with no serial correlation problem is the one that uses two lag-lengths.

Figure 1: GDP Model Health Model Education Model
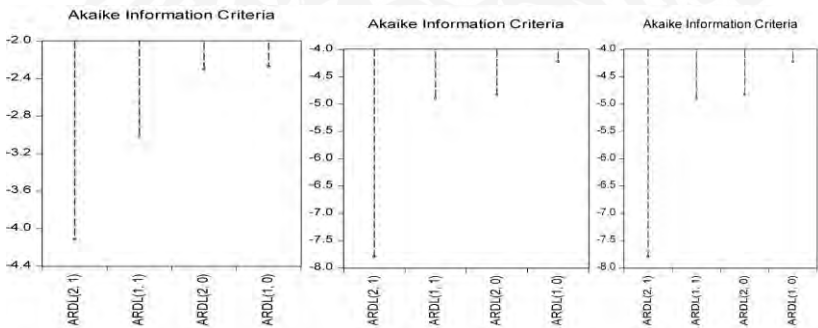
4.4 Bounds Test Result

Table 3 below presents the results of the bounds test, which shows the co-integration relationship between *zakāt* distribution and social welfare measurements in Selangor. This is done by comparing the F-statistic value with the critical bounds value for the cases of restricted intercept and not trend. The calculated F-statistic values based on UECM are outside the critical bounds value for the L-GDP and L-Education models. Therefore, we can conclude that the null hypothesis of no co-integration can be rejected at the 5% level of significance. However, in this case, the null hypothesis of no co-integration is rejected only with for the L-health model at the 5% significance level, since the F-statistic values is less than the value of the critical bound as reported in Table 3.

Table 3: Bounds Test for All Models

Model	F-Stat	Case		
		(Restricted intercept and not trend)		
		S.level	**I(0)**	**I(1)**
L_GDP	12.57860	1%	4.94	5.58
		5%	3.62	4.16
		10%	3.02	3.51
L-Health	1.266103	(Restricted intercept and not trend)		
		1%	4.94	5.58
		5%	3.62	4.16
		10%	3.02	3.51
L-Education	194.3852	(Restricted intercept and not trend)		
		1%	4.94	5.58
		5%	3.62	4.16
		10%	3.02	3.51

4.5 Estimated Long-Run Coefficients

Table 4 indicates that *zakāt* distribution has a significant positive long-run relationship with social welfare through education in Selangor at a significance level of 5%. In addition, the *zakāt* distribution has a long-run relationship with social welfare through

income by GDP at the 10% significance level. This means that *zakāt*
distribution plays an inadequate role in income development in the
long-run for *zakāt* recipients in Selangor. In addition, the ECM
coefficient confirms that the system readjusted quickly to equilibrium
in the long-run. This is indicated by the Error Correction model
showing a negative sign of – 1.410892 and – 1.817952 for L-GDP
and L-Education models with statistical significance of 5% and 1%
respectively. In other words, the effectively impact of *zakāt*
distribution on income and education level take a period of one year
and four months and one year and eight months respectively. The
results of the short-run coefficient estimated are reported in Table 5.

Table 4: Estimated Long-run Coefficients and the Error Correction
Term Associated with Each Individual Model

Dependent Variables	Independent Variables		ECM$_{t-1}$	Optimal Lag
	Zakāt Distribution			
L-GDP	3.744568	0.271043*	-1.410892**	2
	S.dv	(0.085115)	(0.162406)	
	T-test	[3.184442]	[-8.687440]	
L-EDUCATION	3.668219***	0.042579**	-1.817952***	1
	S.dv	(0.004934)	(0.064419)	
	T-test	8.630400]	[-28.220657]	

As the bounds test in Table 3 showed that there is no
co-integration found between *zakāt* distribution and social welfare
through healthcare expenditure in the long-run, thus the study
re-trend the data and ran the short-run relationship between the
variable using the first differences. Table 5 presents the result of the
short-run relationship between *zakāt* distribution and social welfare.
It revealed that *zakāt* distribution in Selangor does not significantly
influence social welfare through the health sector.

Table 5: Short-run Coefficient Estimation of the Health Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LZ(-1)	0.005205	0.011717	0.444235	0.6724
C	3.879857	0.236029	16.43802	0.0000

We conclude that in the long run, an increase in *zakāt* distribution in the classic system (current *zakāt* institution) will lead to a partial increase in social welfare through education and income. However, the *zakāt* distribution will not contribute to social welfare through healthcare.

4.6 Diagnostic Tests

The diagnostic tests for serial correlation, normality, and heteroskedasticity are presented in Table 6. The diagnostic tests confirm that all model residuals are free from the problem of serial correlation, free from the problem of heteroskedasticity, and the error terms are normally distributed as presented by Figure 2. We thus conclude that the model has been correctly specified.

Table 6: Diagnostic Tests Results

| Test Statistics	A: Serial Correlation	D: Heteroscedasticity
	Breusch-Godfrey	Breusch-Pagan Godfrey
	F-statistic [P-value]	F-statistic [P-value]
L- GDP	$F_{(1,1)}= 32.20511$ [0.1110]	$F_{(4,2)}= 9.269657$ [0.0997]
L-Health	$F_{(2,4)}= 0.680210$ [0.5568]	$F_{(1,6)}= 0.80613$ [0.4039]
L-Education	$F_{(1,1)}= 1.069191$ [0.4894]	$F_{(4,2)}= 1.39758$ [0.4576]

Figure 2: Normality test for GDP, Health, and Education models respectively
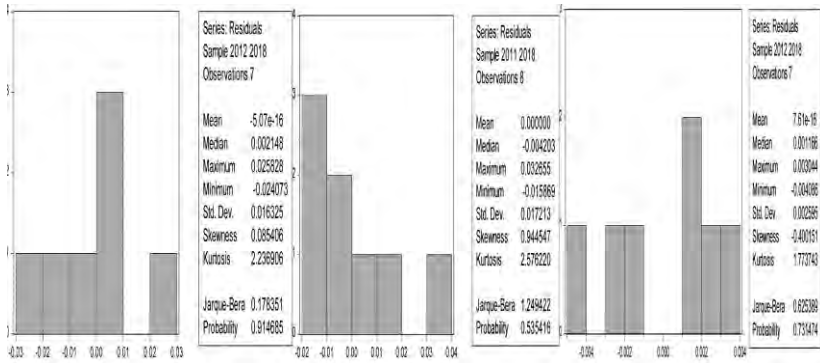

4.7 Models Stability Test Results

The stability of each model has been tested using the cumulative sum (CUSUM) and the cumulative sum of squares (CUSUMSQ) tests. The null hypothesis for stability states that the coefficients cannot be rejected if CUSUM and CUSUM square statistics lie within the critical bounds at 5% significance. Figure 3 below shows the CUSUM and CUSUM of squares graphs for GDP, health and education model. All figures specify that the coefficients are stable at 5% level of significance because the blue line in all the figures is inside the red lines.

4.7.1 Stability Test for GDP model
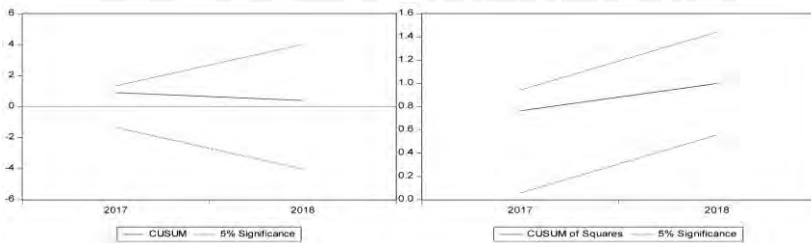
4.7.2 Stability Test for the Health Model
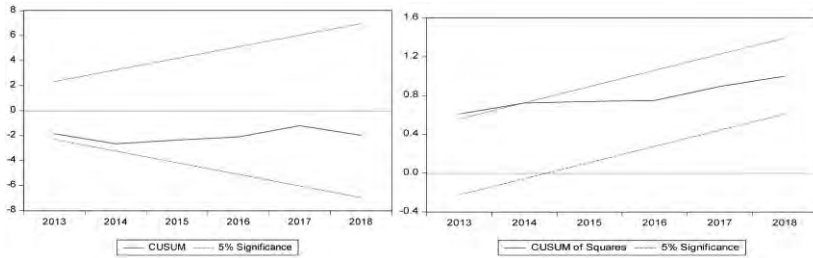
4.7.3 Stability Test for Education
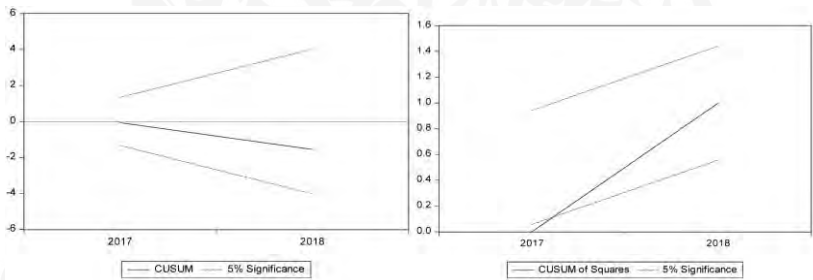
5.0 Conclusion

Zakāt is the backbone of Islamic social finance. It emanates from a divine source with great potential to enhance Muslim society by improving social welfare. This study addressed the impact of *zakāt* distribution on social welfare through income, health and education in Selangor to evaluate whether the current distribution system contributes to social welfare. The ARDL model was applied to examine these relationships. The findings indicated the presence of a long-run effect of *zakāt* distribution in improving the education level among *zakāt* beneficiaries at a statistical significance of 5%. Also, *zakāt* distribution has a long-run relationship with income level. It inadequately affects the beneficiary's income as it is statistically significant at 10%. On the other hand, the *zakāt* distribution found had no statistically significant long-run relationship with healthcare in Selangor. Overall, the outcomes of the study prove that the current *zakāt* distribution system does not adequately achieve social welfare

in Selangor, especially through health. This result means that the current *zakāt* distribution does not effectively increase the income of *zakāt* recipients to cover their basic needs and is inefficient to enhance healthcare. However, the current *zakāt* distributions contribute positively to the beneficiary's education. These findings suggest that the current distribution channels of health are insufficient to improve social welfare and should be improved by offering social health insurance policy for *zakāt* beneficiaries. This can be done via ratification insurance plan between *zakāt* agencies and insurance companies to cover the basic health needs for *zakāt* beneficiaries.
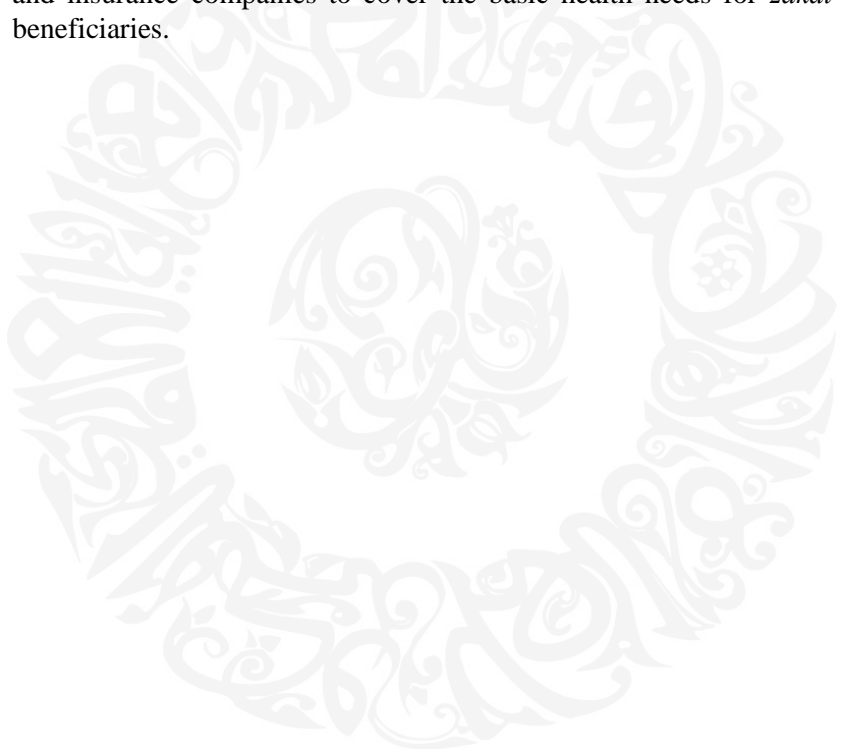
TRANSLITERATION TABLE

CONSONANTS

Ar=Arabic, Pr=Persian, OT=Ottoman Turkish, Ur=Urdu

	Ar	Pr	OT	UR		Ar	Pr	OT	UR		Ar	Pr	OT	UR
ء	'	'	'	'	ز	z	z	z	z	گ	—	g	g	g
ب	b	b	b	b	ڑ	—	—	—	ṛ	ل	l	l	l	l
پ	—	p	p	p	ژ	—	zh	j	zh	م	m	m	m	m
ت	t	t	t	t	س	s	s	s	s	ن	n	n	n	n
ٹ	—	—	—	ṭ	ش	sh	sh	ş	sh	ه	h	h	h¹	h¹
ث	th	th	th	th	ص	ṣ	ṣ	ṣ	ṣ	و	w	v/u	v	v/u
ج	j	j	c	j	ض	ḍ	ẓ	ż	ż	ى	y	y	y	y
چ	—	ch	ç	ch	ط	ṭ	ṭ	ṭ	ṭ	ة	-ah			-a²
ح	ḥ	ḥ	ḥ	ḥ	ظ	ẓ	ẓ	ẓ	ẓ	ال	al³			
خ	kh	kh	kh	kh	ع	ʻ	ʻ	ʻ	ʻ					
د	d	d	d	d	غ	gh	gh	ğ	gh					
ڈ	—	—	—	d	ف	f	f	f	f					
ذ	dh	dh	dh	dh	ق	q	q	k	q					
ر	r	r	r	r	ك	k	k/g	k/ñ	k					

¹ – when not final
² – at in construct state
³ – (article) al - or 1-

VOWELS

		Arabic and Persian	Urdu	Ottoman Turkish
Long	ا	ā	ā	ā
	آ	Ā	Ā	—
	و	ū	ū	ū
	ي	ī	ī	ī
Doubled	يِّ	iyy (final form ī)	iy (final form ī)	iyy (final form ī)
	وّ	uww (final form ū) uvv (for Persian)	uv	uvv
Diphthongs	و	au or aw	au	ev
	ى	ai or ay	ay	ey
Short	َ	a	a	a or e
	ُ	u	u	u or ü o or ö
	ِ	i	i	i

URDU ASPIRATED SOUNDS

For aspirated sounds not used in Arabic, Persian, and Turkish add h after the letter and underline both the letters e.g. جھ jh   گھ gh

For Ottoman Turkish, modern Turkish orthography may be used.

AL-SHAJARAH
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