Zakat Investment in Shariah

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Abstract: Zakat is an obligatory payment and the idea of zakat investment was initiated by the belief that providing the poor and needy with a non-substantial amount of fund that is mostly used to pay for their expenditure is not enough to undertake poverty. Muslim intellectuals suggested a long-term measure involving the investment of zakat that not only complement the poor with a stream of income that is more consistent and continuous but also provide a source of income to fund overall Muslim economic development. However, Muslim intellectuals found that investment of zakat may make the payment legally vulnerable from the Shariah (Islamic law) point of view. Thus, many fatwas and views have been expressed by the Muslim intellectuals as guidelines to ensure that the investment activities conform to Shariah. This study examines contemporary intellectuals’ viewpoints of zakat investment.

Keywords: Istithmar, shariah, zakat investment, income, economic

INTRODUCTION

Investment refers to any actions that add to tomorrow’s probable income. From an economic point of outlook, investment denotes activities involving capital expenditure that give up current expenditure for possible returns in the future. The yield may be in substantial goods, such as production outputs and profits and intangibles such as education (Psacharopoulos and Woodhall, 1985) development and health, etc. (Farah, 1997; Sharpe et al., 1995). Investment involving some kind of physical asset such as machinery, land or factories is known as real investment while investment concerning contracts written on pieces of study which carry other legal responsibility in providing the returns such as common shares and loans, bank deposits is known as financial investment. There is also investment involving human beings for the purpose of increasing their capacity by such means as education, training and health care which is well-known as human capital investment.

Literature review: Since, investment in an act that gives up current consumption for potential returns in the future, it involves time and risk (Sharpe et al., 1995). Some investments, especially those involving financial instruments, will take just a few days or months for the benefits to be recognized but others, especially those which produce insubstantial yields, may take longer. An investment which takes a longer time to make a return is deemed riskier given the doubts that occur during the period of investment. The risk of an investment is also linked with the asset’s liquidity, political environment and economic, etc. Still, thorough analysis and prudent standards undertaken in any investment activity can defend it against loss under all normal or reasonable circumstance.

Among the Islamic jurists, investment (istithmar) refers to an act to acquire income and profit or to develop wealth and enhanced it. The word istithmar is not directly used but other words which refer to a similar meaning as investment can be found in discussion of al-qirad, al-mudaraba, al-shirka, al-murabaha and al-salam (Al-Fawzan, 2005).

Contemporary Muslim intellectuals have outlined many requirements to make certain that an investment activity is in harmony with Shariah (Islamic law). All dealings and transactions in the investment activity must fully comply with the requirements of the Islamic law. Investment in prohibited goods or involving the prohibitive elements similar to interest (riba), gambling (maysir) and uncertainty (gharar) must be avoided.

According to Abd al-M. Aziz, an Islamic investment must advantage the factual need of humans through the contribution of thought and material according to exact priorities. In selecting reasonable investment projects, projects that benefit the society most must be given main concern compared to missions which benefit only a fragment of society. Similarly, projects that
benefit the poor must be given more authority than projects that provide luxurious goods to the wealthy.

MATERIALS AND METHODS

This study is qualitative in nature, relying extensively on documentary data and it is a library based research which refers to various works from both fields; Islamic law and Islamic economics.

Muslim scholars view about zakat investment: Zakat investment has been defined by Muslim intellectuals as an activity which utilizes zakat with the aim of increasing the zakat recipients’ future benefits. Al-Fawzan defines zakat investment as any dealings that involves zakat, nurtures it and benefits the recipients. Similar classifications are also given by Shubayr and Muhammad Farah except that they claimed that the utilization of zakat in any investment activities must only make use of Islamically approved development methods and principles. Investment activities concerning zakat must be devoid of the prohibitive elements like riba, maysir and gharar. They also claimed that investment of zakat must fully comply with the principles of zakat to ensure that the obligation to pay zakat is fully executed and performed (Ali, 1992).

An investment is deemed as zakat investment when zakat is employed to fund the investment. This contains investment projects funded fully or partly by zakat. It also contains projects which are originally funded by other sources of financing but at a later stage are paid or bought with zakat funds (Farah, 1997).

Based on the above definitions of investment, zakat and zakat investment above, it can be accomplished that any investment activities involving zakat should involve both touchable and intangible assets. Investment of zakat should not essentially be confined to financial investments only but also should include development projects such as schools and hospitals etc. Furthermore, the purpose of zakat itself is not limited to benefit the receivers financially only but also socially and economically (Ali, 1992).

Since, the aim of investment is for future benefits, investment of zakat should be meant for the future benefits of the recipients and not for their current benefits. Thus an investment of zakat excludes expenditures spent to fulfill the recipients’ current needs, like the disbursement of zakat given to cover basic necessities for current consumption purposes only as for food, shelter, clothing, transport, basic education and health care. Cows given as zakat which are utilized as food, for instance, are not an investment of zakat in contrast to cows given for the purpose of enabling the recipient to start a farm. Similarly, zakat fund used for repairing the house of a poor person is not an investment of zakat in opposite to financing apartment blocks meant for temporary accommodation for the poor.

The immediate needs fulfilled by the payment for compensation of administrators of zakat (amrul), settlement of debt for debtors (gharinaan) and assistances given to those in enslavement (riqaab) and travellers (ibn alsubil) will also exclude them from being a part of zakat investment (which we termed as the functional purposes of the recipient). The reason is because the distribution of zakat for these purposes is also made to fulfill the existing need of the recipients and with no target for their future benefits.

Any investment involving the zakat fund must make sure that the payment and distribution of zakat is properly carried out according to Islamic law. In other words, the investment must not only be in conformity with the Islamic principles regarding investment but must also fulfill the purposes and requirements of zakat payment and distribution. The investment’s benefits, for example, must be meant for the resolute zakat recipients only because that is an elementary condition of zakat distribution.

RESULTS AND DISCUSSION

Reason for propose Zakat investment: Modern Muslim intellectuals propose investment of zakat for several reasons. Channelling zakat funds into long-term investments is considered essential to fasten the pace of development in Muslim countries. Given the prevalent low per capital income and low productivity of many Muslim countries, zakat can become the new resource of funds to finance economic expansion.

Zakat as an obligation on the well-heeled provides the poor and needy with cash and kinds that enable them to fulfill their necessary needs. Provisions of continuous assistance to fulfill the necessary needs of the poor and needy, especially for those who are still productive, however, may reason a social security trap in which the recipients will have no encouragement to work (Mannan, 1988).

The ultimate objective of zakat is to liberate the poor recipients from everlasting dependence on it (Faridi, 1992). Thus, for those poor who are skilled of working, intellectuals suggest that they are not only provided with money to cover their basic needs but also suitable market incentives, physical infrastructure and institutions which make possible them to participate in the labour market and earn their own income (The World Bank, 1990).
At the same time, studies have shown that the poor and needy will most likely remain poor because of their limited resources and opportunities. They have limited human, financial and physical capital needed to participate in an economic activity that will provide them with sufficient income. Muslim scholars like Pramanik (1993) and Ahmed believed that zakat takes an important role as a source of financing needed to boost up the limited resources of the poor and the needy. Zakat is also considered as a public source of funds that can empower them with opportunities that enable them to break away from poverty. Pramanik (1993) and Ahmed argue that for those who have fewer capabilities to compete due to lack of capital as well as skills, the state must provide not only the basic needs but also adequate opportunities for them to participate in the economy. Such aims can be achieved through development projects financed with zakat.

For those poor that are capable of working, Muslim economists argue that zakat can provide them with the capital needed as well as opportunities for employment. Sadeq (1996) and Ahmed believed that specific programmes should be designed to provide the poor with support for education and skill development that may assist their ability to earn their own income and become independent of zakat in the future. They suggested that zakat is spent to supply physical capital for the workers (like a sewing machine, taxi, etc.) and financial capital to potential entrepreneurs among the poor recipients that enable them to start a business (Sadeq, 1992). In addition to these, Faridi (1992) and Badawi (1999) suggest the use of zakat to finance the education and training rehabilitation of potentially poor worker to improve their productive capabilities (Badawi, 1999). The state for Faridi (1992) should purchase costlier production and marketing equipment for the poor to use. The equipment should be managed by the state and used freely by the poor (Faridi, 1992).

Al-Qaradawi and Al-Ashqar suggested the establishment of a labour-intensive workplace which can provide employment to numerous recipients such as manufacturing factories that are financed by zakat. Al-Khayyat and Shawqi (1997) argued that this type of establishment should cater for both the recipients' opportunity for employment and also their rights to consumer goods. Thus they suggested that zakat revenue should finance business projects with production concentration like manufacturing plants and business enterprises that are intended to make available to the poor certain important consumer goods like food and textiles.

For those non-able bodied recipients that are incapable of work like the disabled, old people and children from the poor families, intellectuals suggested that zakat is invested to provide them with a continuous and stable income. Apart from payment of zakat to fulfill their basic needs, a portion of zakat should be invested in income generating projects. Earnings from these projects can provide them with the necessary future day to day income and they will no longer be solely dependent on zakat distribution. Sadeq (1996) suggested that this group of people is given entitlement to shares of productive enterprises financed by zakat. Earnings from the shares can provide them with the necessary income. The earnings for Anwar can be generated by an investment fund that is funded by zakat. Zakat funds should be channelled into the investment fund and used to purchase shares from selected companies. The shares will be transferred to individual recipients where they can gain bonus or redeem the shares at their market value.

On top of the above reasons, intellectuals also consider zakat investment as a practicable mechanism to increase the zakat assets. Al-Fawzan maintains that investment of zakat can increase its value through the generated profits (Ali, 1992). Increasing the value of the zakat fund will increase the benefits of zakat as more zakat can be given to the recipients and at the same time more recipients can receive zakat. Farah (1997) believed that investment is the most feasible method in dealing with the undistributed zakat revenue. Investment will not only generate more profit for the zakat revenue but can also prevent it from devaluation due to inflation (Farah, 1997). According to Al-Qaradawi, the most suitable type of investment for funds awaiting disbursement decisions, for example, during the period taken to determine the deserving recipients, is in financial instruments such as deposits in banking institutions, shareholding in unit trusts or private companies, etc. This is because this type of investment is known to carry minimal risk and is easily liquidated.

CONCLUSION

The above discussion reveal that Muslim scholars have suggested zakat investment for many reasons. Utmost was the long-term benefits of the recipients both economically and socially. Investment of zakat was also the ideal mechanism to ensure that undistributed zakat did not remain idle and corroded by inflation. Furthermore, through investment the undistributed zakat could be increased in value and utilized to benefit the recipients of zakat.

Muslim scholars also suggest many forms of zakat investment for the poor not only to reduce their poverty but with the ultimate aim of making them financially independent of zakat. These include those who are
capable of work and those who are unable to earn their own income. Interestingly, from the forms of zakat investment suggested by scholars, we find that the states, or zakat institutions as its representatives, play the most important role in managing the investment of zakat. Expenditures of zakat to provide costly equipment, to establish labour-intensive work-places and to develop and maintain supporting facilities for the poor should be managed and organized by an entity that has the right and authority to manage zakat and at the same time has other supporting facilities to realize them.

REFERENCES


