

ZAKAT AND ITS ISLAMIC CONCEPT AND ANALYSIS OF ECONOMIC EFFECTS: A LITERATURE REVIEWS

*Toaha Qureshi MBE

ABSTRACT

Zakat (almsgiving) is a religious duty for every well-off Muslim to donate 2.5% of his/her wealth to help out those in society who are less fortunate. Based on the requirements of Shariah, only those Muslims are required to give zakat who have the means to do so. Although in Islam, there is no Taxation system, however, a Muslim should pay taxes made applicable by the state on its citizens as taxes will help the country flourish. This study examines the previous researches from various countries to analyse the Economic impact of Zakat on the society. This analysis of previous researches finds out that there is a big impact of Zakat on both micro and macroeconomic factors. Zakat has a greater projected macroeconomic impact on economic development, wealth and income distribution, eradication of poverty, social security, and economic stabilization.. There are strict rules in accordance with Islamic jurisprudence, that only needy or deserving person should be given zakat for his/her consumption. Based on previous research, the current study suggests that, Zakat might be a useful instrument for promoting economic growth. This imply that zakat might, in the long term, contribute to the economic growth of the ummah by reducing inequality as well as the gap between the rich and the poor. In order to increase the efficiency and effectiveness of zakat collection and distribution, however, much more has to be done in real terms.

Keywords: Zakat, Shariah, Economic Growth, Poverty Eradication

1. Introduction

Islam is founded on: a) five pillars and b) seven articles of faith: a) Five pillars being, 1) the belief of Tauheed (Monotheism) that there is no one to be worshipped but Allah, and Muhammad is Allah's (last) Messenger (prophet); 2) Salah, establishment of five daily prayers; 3) the payment of zakat (charity or almsgiving); 4) Saum, the fasting during Ramadan, the ninth Islamic month; and 5) the performance of pilgrimage to Makkah. Abdullah ibn Umar (RA) narrates: I heard the Prophet (PBUH) saying: Islam is built on five [pillars]: Shahadah, five daily prayers, Zakat, pilgrimage to Makkah, and fasting. [Bukhari & Muslim: Hadeeth 3] According to another hadeeth of Prophet Muhammad (PBUH), Islam is like a canopy where Tauheed (Monotheism) is the (first and) central pillar and the other four pillars are Salah (Daily five prayers), Saum (Fasting), Zakat (Almsgiving) and Haj (Pilgrimage). The articles of faith for a Muslim are belief in: 1) believing in Allah (monotheism), 2) believing in His Angels, 3) believing in His divine books, 4) believing in His Messengers 5) believing in the good and bad of Qadar (Divine decree is only with Allah), 6) believing in the final day, and 7) believing in the eternal life after death. There is a very close correlation between the pillars and the articles, however, the five pillars must serve as the foundation for the beliefs for every Muslim. Therefore, it is essential that each Muslim adhere to each of the pillars as commanded by God Almighty and in accordance with the Sunnah of Prophet Muhammad (PBUH) Islam has Zakat as of its obligatory duties that eases the suffering of millions no matter what colour or race one belongs to. It literally means 'to cleanse,' Muslims believe that by paying zakat to the deserving people, purifies, increases and blesses the remainder of their wealth. By donating zakat (an Arabic for "cleansing"), we purify and clean our wealth. By giving zakat, the wealth does not decrease in accordance with the Islamic teachings, it rather increases. All Muslims who have wealth that exceeds the minimum zakat table limit must give zakat. According to the al- Qur'an, only certain types of individuals can receive the zakat payment which are the destitute, the poor, the zakat collectors, the converts, the slaves to whom freedom is promised, the debtors, the distant travellers and the ones who fight in the path of Allah.

Nisab (threshold) has been set up for Zakat that affluent Muslims pay. It changes with inflation as it is based on the going rate of silver. Nowadays, it is £362.72. Any Muslim who has

wealth above this amount must pay Zakat. It depends on the type of wealth i.e. for gold it is 3 Oz, for Silver it is 21 Oz, for cash it is 200 Dirham. Zakat is not only an important but obligatory component of worship for those who have certain amount of wealth for one complete year. Zakat helps the welfare system of the state. The principle of Zakat is to provide a solid and logical foundation for the uplift and improvement of people's lives. When seen in the perspective of development, zakat serves three primary purposes. First, zakat can be utilised to close a budget deficit by acting as a safety net for the state budget. Second, zakat serves as a tool for social security and welfare. Third, zakat can be utilised to expand output to stimulate economic expansion. Zakat is a mechanism that strengthens brotherhood, and it enforces an obligation on Muslims who meet certain conditions to give up a portion of their wealth as alms. As a result of regular zakat collection and distribution made to the less fortunate citizens enables them to rise to a better socioeconomic position. Zakat has direct correlation with both macro-economics and micro-economics. Macro-economics may include joblessness, interest rates, inflation, Gross Domestic Product (GDP). Whereas examples of micro-economics could be consumer stability, income and savings of individuals. Zakat in the macro-economy may be used as a tool for financial policy in a nation or in the communal arena of Islam, but it can be crucial in the microeconomy for allocating or distributing zakat to the needy. The eligible individual categories of people for zakat is listed in Al-Qur'an, in the Chapter at-Taubah verse 60, some of whom include the needy and the destitute. As part of the income distribution procedure, they will get their portion of the zakat. Institutions that administer zakat are seen as an Islamic entity that maintains social harmony in the state. After providing help to the less fortunate through zakat, zakat institutions and staff can also be supported by Zakat funds. Zakat plays a key part in the Islamic economy's development and expansion. The rationale is that money raised from zakat aids members of the community who are struggling financially. In this sense, paying zakat is a requirement for Muslims who have wealth up to a certain amount as determined in the Islamic jurisprudence. In the community, the zakat system has been shown to provide a number of advantages, including reducing the gap between the affluent and the poor and providing facilities for those in need of transportation, healthcare, education, and other requirements. In the global market, a number of approaches have been implemented for the handling of zakat. For instance, from the perspective of Malaysia, each state is required to collect the zakat contributions. This research describes and summarises a number of studies about zakat distribution, collection, and the social and economic effects of such practices that have been done in various nations. Despite the fact that there have been several studies on zakat, this one focuses on its features, collection, distribution, and social and economic effects. The references considered in this study are from a number of nations having zakat organisations and systems. This study analyses zakat distribution and collection through discussing significant aspects about the economic effects of zakat on society. The zakat payer and beneficiary both benefit from these good effects i.e. the payer cleanses his/her wealth and get Allah blessings in this world and the world hereafter whereas the receiver gets socio-economic stability according to the teaching of Quran and Sunnah. Thus levelling up the society by bridging the gap among the poor and the rich.

2. Literature Reviews

According to the study of Mehmood et al (2021), provide three key pre-selection criteria for asnaf (people worthy of receiving zakat) to take a close look at each of the three participants—the zakat payers, zakat receivers, and zakat institutions. For the proper implementation of the zakat process in the future, a full knowledge of these players is essential.

The primary topics covered, however, are determined by a participant's pre-selection, which are; 1) assessment of entrepreneurial purpose, by applying an entrepreneurial index for the identification of real potential beneficiaries; 2) suggestion to appoint village headmen who work with neighbourhood imams to confirm potential beneficiaries for effective management of zakat; and 3) allocation of funds for targeted Visionary beneficiaries for their innovative business ventures to improve Islamic system zakat .

Zakat and effective governance in zakat institutions:

Zainal Alim Adiwijaya (2020), outlines the elements of effective operation of zakat institutes which have been examined in earlier studies from different nations. A number of research were gathered from Q1–Q4-indexed journals on Scopus. The papers in this research were arranged according to the topic, discussion, year, and source using the "Charting the Field" technique. We came to the conclusion that a zakat organisation must satisfy a number of requirements, including distribution requirements, efficiency, and financial reporting, in order to be classified as a good-governance institution. Following these traits, this research also outlines the advantages zakat institutions may have if they practice sound governance. The reduction of poverty, the effect on zakat institution users, and the assurance of muallaf's life are all good effects discovered via prior study. Retnowati (2018), looks at the effectiveness and functioning of the zakat institutes in the province of Jambi. This research uses the Data Envelopment Analysis (DEA) approach to assess the effectiveness of zakat institutes using the indicators of the National Zakat Index (NZI). The samples utilised in this study are LAZ RSIM and BAZNAS Jambi Province. Based on the findings of the performance analysis, the performance of zakat institutes was rated as "pretty good" to "good" by BAZNAS Jambi and LAZ RSIM, respectively, with index values of 0.44 and 0.63. Based on the findings of the efficiency analysis, LAZ RSIM has achieved maximum efficiency of 100%. The effectiveness of BAZNAS Jambi Province is 56.1 percent. The overall effectiveness of the zakat institutions is 78.1 percent on average.

Association between zakat and economic growth:

Suprayitno (2020), show how the zakat distribution has affected the macroeconomics in 5 states employing extracellular matrix (ECM) analysis in Indonesia. The current study was motivated by the widespread view among economists that the zakat has no impact on the macroeconomy since its contribution of 2.5 percent is viewed as small. The significance of zakat distribution in Indonesia is raised by this topic. According to this research, zakat and economic growth have a substantial and advantageous association. According to the findings of the ECM investigation, zakat distribution has a beneficial impact on economic growth. The zakat variable has positive and considerable long-term elasticity.

Zakat and its impact on the economic growth:

Nurjahan (2019), considers how poverty is eradicated by growth of economy and the use of zakat funds. 2011–2016 secondary data are used in the study. According to the findings, the number of impoverished individuals are significantly impacted by both economic growth and the zakat fund's distribution. The number of poor people is negatively and significantly impacted due to poor economic growth. This is where zakat can play a crucial role in helping such impoverished individuals.

Key supply chain indicators and economic outputs:

Ridwan et al (2019), Analyze the connection between zakat collection and distribution from the standpoint of the main chain of supply to determine their impact on the economy in Indonesia. This research gathers the essential information from a variety of participants who contact with different zakat distribution and collecting locations and pay zakat. Finally, 362 respondents were chosen as a sample for the purposes of correlational, evocative, and regression analysis. It has been noted that the zakat's dissemination and collection serve as key supply chain indicators and economic outputs. More precisely, zakat collection and distribution benefit Indonesia's economy, clean wealth distribution, provision of facilities for poor pupils to attend school, and supply of high-quality medical care. Additionally, it has been shown that having additional collecting and distribution facilities may boost the economy, where mosques and Muslim community centres play a crucial role.

Adhering to the regulations for Zakat:

Ahmad et al (2017), evaluate the level of service fulfillment with the zakat supply and the potential impact on the social and financial standing of the receivers. Social service delivery can be complemented by deeply ingrained tradition. In order to examine the replies of the 192 programme participants, descriptive statistics were used. The results, which focused on the respondents' comments, revealed worries about zakat distribution and investment. The research's findings led to the conclusion that modern zakat administration, when offered in a rural region, needs to be standardised and strictly adhere to rules for required execution. More people would get zakat if it was distributed consistently while strictly adhering to the laws and regulations. Effective and efficient wealth redistribution contributes to the elimination of any existing inequities.

Measurement of zakat distribution:

Zakaria, M. (2014), examine the impact of human needs—religion, physical well-being, knowledge, family, and wealth—as seen through Maqasid al-Syari'ah on the efficiency of zakat (almsgiving) division. A total of 350 questionnaire sets were physically delivered to the participants of Majlis Agama Islam Kelantan's (MAIK) business aid and life skills training programmes in Malaysia. From this sum, 320 persons answered, equating to 91.43 percent response rate. To analyse the data, structural equation modelling of Analysis of Moment Structure (AMOS) version 20's was used. The results lead to the conclusion that all human needs—religion, knowledge, physical well-being, family, and wealth—from the standpoint of Maqasid al-Syari'ah favourably affect the efficiency of zakat distribution. Therefore, the study gives zakat institutions, policy makers, and the general public insight into the fact that various non-monetary qualities, such as religion, physical life, knowledge, and family, may also be included when determining how successful zakat distribution is measured.

Capacity of zakat expenditure, its effect on real economic growth:

Yusoff and Sorfina (2012), Analyze the effect of zakat distribution on the growth of economy in Malaysia's Federal Territory. By using various techniques of econometry including the unit root test, the cointegration test, the vector error-correction model (VECM), and the Granger causality test, a study of econometry is specifically conducted to test the capacity of zakat

spending to affect real growth of economy in the Federal Territory of Malaysia. According to the study's findings, real GDP and zakat spending have a long-term beneficial association. According to the Granger causality test, no negative feedback was received on the zakat expenditure results in genuine economic development.. which means that zakat spending may increase GDP in the Federal Territory of Malaysia over the long and short terms.

Zakat and socioeconomic well-being:

Wahab and Rahman et al (2011), attempts to give a conceptual model on the effectiveness and management of the zakat institutions in Malaysia that are in charge of collection, management, and disbursement of zakat. The primary goal of zakat is to safeguard the socioeconomic well-being of the underprivileged and the needy. In this essay, the pertinent literature on effectiveness, governance, and zakat is reviewed and synthesised. The report then created and advanced a conceptual framework for investigating the effectiveness and management of zakat institutions. The report offers the suitable techniques for assessing the effectiveness and administration of zakat institutions. The Islamic financial system must operate efficiently in order to realise the lofty goals of socio-economic justice through equitable wealth distribution.

Localising zakat distribution through mosques:

Wahid et al (2011), analyze how zakat and amil beneficiaries feel about the mosque's function and the intended localisation of zakat distribution. This study is predicated on the idea that localising zakat distribution increases efficiency and hence lessens poverty. Additionally, it is proposed that the mosque serve as a local Muslim institution with strong ties to the neighborhood's Muslim population in order to eradicate poverty on a long-term basis. This study makes an effort to evaluate the link between the relevant variables using this approach. Utilizing survey data on a sample of amil as well as the needy and destitute zakat users in Peninsular Malaysia, structural equation modelling (SEM) is used. According to the report, the majority of amil respond favourably to that issue and are in favour of the planned localisation of zakat distribution through the mosque. Perceived zakat localisation and the function of the mosque are found to be positively correlated. This paper discusses several suggestions and policy consequences.

3. Discussion and Results

To analyse the Economic impact of Zakat, discussion on the results of Empirical Analysis of Previous studies from various countries is discussed in this section. This section will.

For Muslims, zakat serves various purposes. One of the objectives is to assist poor Muslims in living a better life. The basic goal of zakat, which is to reduce poverty, will be achieved if the monies that have been collected in the form of zakat, can be dispersed in a proper manner. On the other hand, if the fund cannot be handled appropriately, the objective will not be met. In order to reduce poverty, a zakat organisation must have strong governance. HAMBALI, et al (2017). According to Wahab and Rahman (2011), as long as the zakat administration is carried out effectively, zakat can help to reduce poverty. Efficiency in zakat administration would encourage wealthy individuals to invest their wealth, which will boost output. zakat institutes have a preliminary objective to reduce deprivation and hardship among the poor among the communities at large and to improve their standard of life, according to

Hambali et al. (2017). In order for zakat money to be seen as a productive asset, Muslims' economies must be developed in order to achieve this aim. Zakat has a significant impact on both micro- and macro-economic factors. In the past, zakat had a greater impact on people's investing and saving habits than on their job efforts. Allocative effectiveness, economic development, wealth and income distribution, the eradication of poverty, social security, and stabilisation are some of the projected macroeconomic impacts (Haq, 2013). The payer and the beneficiary of zakat make up the two income categories in the Islamic economy when it is used. The mandatory zakat givers (Muzakki) will transfer a portion of their wealth to a recipient group of zakat (mustahik). It will undoubtedly boost mustahik's earnings. Increased income will result in increased consumption while also enabling the mustahik to begin building long-term savings. (Hasan, 2017). Zakat will shift the usage of luxurious items and services to the more basic ones, increasing the use of basic goods and services. Islamically, to have rise in income generation, the circulation of zakat to the needy and destitute must be carried out. For the purchase of necessities, one may utilise his/her income and zakat share. Zakat, on the other hand, will cause the wealthy to have less money temporarily but blessings of Allah eventually will be for those who give zakat. Losing the wealth and income of the wealthy might result in a decrease in the use of luxury products and services (Siddiqi, 1981). Research suggests that mustahik has a higher tendency to use than muzakki, the results of the literature reviews demonstrate that the zakah has a very minor influence on average consumption. The utilisation of statistics on the combined utilization of Muslims and non-Muslims may have an influence on the small impact of zakat distribution on consumption, but the collected zakat is primarily used to support Muslim needs. According to a 2013 study by Pambudi, an increase in household income will result in a greater utilisation of mustahik. Pambudi contends that the zakat demonstrates that it has considerable impact on income, usage, reserves, and the infak of mustahik (Pambudi, 2013). If zakat is properly and openly handled, it will improve people's welfare, create more jobs, and serve as a way of distributing society's economy. Zakat has significant consequences for saving as well. According to the theory of economics, the difference between earnings after consumption is saving when deciding how much is set aside for future consumption vs how much is given for present spending. Adjustment in the interest rate and the time preference rate will result in the present consumption level and saving rate. Due to its connection to savings, the interest rate will have an impact on present levels of spending. (Shaikh & Ismail, 2017). Zakat will be implemented, and this will improve the national saving rate on a macro level. Zakat payment will induce muzakki to raise the ratio of saving in order to keep the amount of wealth from dropping because zakat is imposed on both income and accumulated wealth, not just on income. Meanwhile, as the system of collection of zakat is a business-friendly structure, it will have a favourable effect on overall production. Because it is governed by Shariah, zakat has a minimal fee that is always the same and never changes. (Abdelbaki, 2015; Abu Bakar & Rashid, 2010; Eko Suprayitno, Radiah Abdul Kader, Azhar Harun, 2013).

Conclusion

Considering Zakat is a religious obligation on every wealthy Muslim, to help out those in society who are less fortunate. This study was carried out to examine the previous researches from various countries to analyse the Economic impact of Zakat on the society. This analysis through this study concludes a significant impact on both micro and macroeconomic factors i.e. collection and distribution of Zakat has huge impact on economic development by income distribution, eradication of poverty, enhanced social security, and economic stabilization. It was concluded that Islamic jurisprudence imposes very strict rules on the zakat payers, zakat

receivers and zakat collecting institutions. Based on previous researches, the current study concludes that zakat, in the long term, contribute to the economic growth of the ummah by reduction of the gap between poor and rich communities; it also concludes that income and wealth disparity is also reduced. In order to increase the productivity and effectiveness of zakat collection and distribution, however, much more has to be done in real terms.

4. Recommendations

For capacity of zakat expenditure and its effect on real economic growth, it is recommended that: 1) effective governance in zakat institutions, 2) measurement of zakat distribution, 3) further adherence to the regulations for Zakat, 4) localising zakat distribution through local mosques in the neighbourhood is needed. This in turn will have added value in the areas of an effective and enhanced association between the growth of economy and zakat. It is further recommended that key supply chain indicators and economic outputs are regularly monitored for socioeconomic well-being.

5. References

- Abdelbaki, H. H. (2015). The Impact of Zakat on Income Inequality and Poverty in Malaysia: A Panel Data Analysis. *Review of Integrative Business and Economics Research*
- Abu Bakar, N. B., & Rashid, H. M. A. (2010). Motivations of Paying Zakat on Income: Evidence from Malaysia. *International Journal of Economics and Finance*. <https://doi.org/10.5539/ijef.v2n3p76>
- Ahmad, M., Dziegielewski, S. F., Tariq, I., & Bhutta, A. Z. (2017). Zakat as a social safety net: assessing its perception in a less-developed rural district in Pakistan. *Journal of Social Service Research*, 43(3), 369-380.
- BAKAR, M.H.A. (2011) Towards Achieving the Quality of Life in the Management of Zakat Distribution to the Rightful Recipients (The Poor and Needy). *International Journal of Business and Social Science*, 2 (4), pp. 237-245.
- Eko Suprayitno, Radiah Abdul Kader, Azhar Harun. (2013). The Impact of Zakat on Aggregate Consumption in Malaysia. *Journal of Islamic Economics, Banking and Finance*.
- HAMBALI, K.B.M.K., HAMZAH, Z.L., DAUD, M.Z., and JOHARI, F. (2017) Managing the Institution of Zakat: Case Study of Muallaf in Selangor, Malaysia. In: MUTUM, D., BUTT, M., and RASHID, M. (eds.) *Advances in Islamic Finance, Marketing, and Management*. Bingley: Emerald Group Publishing Limited, pp. 325- 339.
- HAMBALI, K.B.M.K., HAMZAH, Z.L., DAUD, M.Z., and JOHARI, F. (2017) Managing the Institution of Zakat: Case Study of Muallaf in Selangor, Malaysia. In: MUTUM, D., BUTT, M., and RASHID, M. (eds.) *Advances in Islamic Finance, Marketing, and Management*. Bingley: Emerald Group Publishing Limited, pp. 325- 339.
- Haq, S. G. (2013). Distribution of income and wealth in islam. *South East Asia Journal of Contemporary Business, Economics and Law*
- Hasan, Z. (2017). Consumption and Islam: Micro Foundations and Macro Modelling. *Journal of Economic and Social Thought*, 4(1), 108–118. <https://doi.org/10.1453/jest.v4i1.1207>
- Mahmood, T. M. A. T., Din, N. M., Al Mamun, A., & Ibrahim, M. D. (2021). Issues and challenges of zakat institutions achieving Maqasid Syariah in Malaysia. *AZKA International Journal of Zakat & Social Finance*, 119-137.
- Nurjanah, F. (2019). The Impact of Economic Growth and Distribution of Zakat Funds on Poverty (Survey in the

- Third District of West Java Province Period 2011-2016). *KnE Social Sciences*, 55-70.
- Pambudi, H. A. (2013). PERANAN ZAKAT PRODUKTIF DALAM PEMBERDAYAAN MASYARAKAT MISKIN (Studi kasus pada Badan Amil Zakat (BAZ) Kabupaten Kebumen). *Fokus Bisnis*.
- Rahman, A. R. A. (2003). *Zakat on business wealth in Malaysia: corporate tax rebate, accountability, and governance*.
- Retnowati, D. (2018). The Performance and Efficiency of Zakat Institutions in Jambi. *International Journal of Zakat*, 3(2), 29-40.
- Ridwan, M., Asnawi, N., & Sutikno, S. (2019). Zakat collection and distribution system and its impact on the economy of Indonesia. *Uncertain Supply Chain Management*, 7(4), 589-598.
- Sari, M. D., Bahari, Z., & Hamat, Z. (2013). Perkembangan perbankan syariah di Indonesia: suatu tinjauan. *Jurnal Aplikasi Bisnis*, 3(2), 120-138.
- Shaikh, S. A., & Ismail, A. G. (2017). The Role of Zakat in Sustainable Development Goals. *International Journal of Zakat*.
- Siddiqi, M. N. (1981). 152672_07-MuslimEconomic.pdf.
- Suhaib, A. Q. 2009, 'Contribution of Zakat in the social development of Pakistan. In *Pakistan Journal of Social Sciences*.
- Suprayitno, E. (2020). The Impact of Zakat on economic growth in 5 State in Indonesia. *International Journal of Islamic Banking and Finance Research*, 4(1), 1-7.
- Wahab, N. A., & Rahman, A. R. A. (2011). A framework to analyse the efficiency and governance of zakat institutions. *Journal of Islamic Accounting and Business Research*.
- WAHAB, N.A. and RAHMAN, A.R.A. (2011) A framework to analyse the efficiency and governance of zakat institutions. *Journal of Islamic Accounting and Business Research*, 2 (1), pp.43-62.
- Wahid, H., Ahmad, S., & Kader, A. R. (2008). Distribution of zakat in Malaysia: why are the Muslims still dissatisfied. In *Proceedings of Seminar Kebangsaan Ekonomi Malaysia, Universiti Kebangsaan Malaysia, Bangi*.
- Wahid, H., Kader, R. A., & Ahmad, S. (2011, July). Localization of zakat distribution and the role of Mosque: perceptions of amil and zakat recipients in Malaysia. In *International Zakat Forum 2011* (pp. 1-25).
- Yusoff, M. B. (2012). Zakat distribution and growth in the federal territory of Malaysia. *Journal of Economics and Behavioral Studies*, 4(8), 449-456.
- Zainal Alim Adiwijaya, E. S. (2020). Good governance of zakat institutions: A literature review. *Journal of Southwest Jiaotong University*, 55(2).
- Zakaria, M. (2014). The influence of human needs in the perspective of Maqasid al-Syari'ah on Zakat distribution effectiveness. *Asian Social Science*, 10(3), 165.