

# Zakat

AND  
ITS POVERTY ALLEVIATION GOAL



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AND  
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## CHAPTER EIGHT

### **ZAKAT AS A FINANCIAL CATALYST FOR MICRO AND SMALL BUSINESSES IN MALAYSIA**

*Zuhairah Ariff Abd Ghadas  
Mohd Fahme Hasnor*

#### **INTRODUCTION**

Yusuf al- Qardawi (1969) states that *zakat* is an obligation of Muslims to give a specific amount of their wealth with certain conditions and requirements to beneficiaries. The concept of *zakat* exemplifies Islam's strong concern with social and economic justice. It serves as an equitable redistribution of wealth and income, which is enforced through moral obligation and fiscal measures. As many writers have argued, however, the redistributive economic impact of *zakat* depends on how it is administered, especially with regard to collection and distribution. According to Taufik Abdullah (1991), the administration of *zakat* in Malaysia is seen relatively adequate; therefore, the full potential of *zakat* has not yet been realized.

Similar to most countries, SMEs in Malaysia are an important segment of the economy accounting for 99.2% of total business establishments, employing 5.6 million of the work force and contributing about 32% of gross domestic product. SMEs create job opportunities and heighten import and export of the country. Nonetheless, most SMEs started from small and medium businesses which faced difficulties to get sufficient financing for the business. According to OECD Report (2006), financing is necessary to help SMEs to set up and expand their operations, develop new products, and invest in new staff or production facilities. However, SMEs often faced more difficulties than larger businesses to obtain financing from banks, capital markets or other suppliers of credit. Such financing gap is more pervasive in emerging markets where banks are adopting strategies to cope with reducing the risk of lending to SMEs and where there are well-established systems for raising money through banks and capital markets. The possibilities for SMEs to access financing can be due to an incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, lack of information on both the bank's and the SME's side. Financial institutions are also reluctant to provide financing to certain types of SMEs, in particular, start ups and new firms which have insufficient collateral or businesses which have potential for high returns but at a substantial risk of loss.

Realizing the above factual circumstances, it is observe that SMEs have to find other means of financing which could assist them in the start up or to sustain the businesses while having financial constraint. *Zakat* is seen to be able to assist some of the