Lakat
AND
ITS POVERTY ALLEVIATION GOAL

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CONTENTS

Preface i

SECTION ONE: INTRODUCTION

Chapter 1: ISSUES ON ZAKAT AND ITS POVERTY ALLEVIATION GOAL
Naziruddin Abdullah & Mohd Mahyudi Mohd Yusop 1

Chapter 2: FACTORS THAT MOTIVATE PAYMENTS OF ZAKAT ON INCOME AND INCOME TAX AMONG IIUM STAFF
Muhammad Ibrahim Abdullahi, Mohd Mahyudi Mohd Yusop & Syezlin Hasan 8

SECTION TWO: MANAGEMENT OF ZAKAT INSTITUTIONS

Chapter 3: ASSESSMENT ON THE EFFICIENCY OF ZAKAT DISBURSEMENT IN MALAYSIAN ZAKAT INSTITUTIONS
Siti Normala Sheikh Obid, Sherliza Puat Nelson & Nazifah Mustapha 30

Chapter 4: FINANCIAL CONTROL PRACTICES OF ZAKAT INSTITUTIONS IN MALAYSIA
Muhammad Akhyar Adnan & Bashir Abdisamad Hareed 68

Chapter 5: PAKISTAN’S POVERTY-ZAKAT NEXUS: A MEASUREMENT USING ZAKAT EFFECTIVENESS INDEX
Naziruddin Abdullah, Mohd Mahyudi Mohd Yusop & Che Omar Hj. Awang 86

SECTION THREE- FULFILLMENT OF ZAKAT POLICIES TO ALLEVIATE POVERTY
Chapter 6:
ZAKAT DISTRIBUTION IN THE ECONOMIC DEVELOPMENT PROGRAMME: A CASE STUDY OF SELANGOR
Husna Jamaludin, Nabila Ahmad, Sharifah Nabilah Syed Salleh & Naziruddin Abdullah

Chapter 7:
ZAKAT RECIPIENTS' SATISFACTION ON HOUSING PROGRAMME
Mohammad Abdul Mohit & Nurul Nazyeddah

Chapter 8:
ZAKAT AS A FINANCIAL CATALYST FOR MICRO AND SMALL BUSINESSES IN MALAYSIA
Zuhairah Ariff Abd Ghadas & Mohd Fahirn Hossor

Chapter 9:
ZAKAT AS A SOURCE FOR MICROFINANCING
Norma Md Saad & Jarita Duasa

Chapter 10:
ANALYSIS OF ZAKAT DISTRIBUTION IMPACT TOWARDS REDUCTION OF POVERTY AND INCOME INEQUALITY
Irfan Syauqi Beik & Tiara Tsani

List of Contributors

Index
CHAPTER EIGHT

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

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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