

**THE ROLE OF ZAKAT AND WAQF INSTITUTIONS  
IN ENHANCING SMALL AND MEDIUM ENTERPRISES  
TOWARDS THE SOCIO-ECONOMIC DEVELOPMENT  
OF MUSLIM COUNTRIES:  
LEVERAGING ON MALAYSIA'S POTENTIALS**

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**Abstract:**

Zakat and Waqf institutions have played a significant role in the socio-economic development of Muslims throughout Islamic civilization. This role had declined during the colonial period but is now being revived by several contemporary Muslim countries. This research was conducted to study the current practice and propose means to harness the potential of these two institutions and direct them to enhance the socio-economic development of the Ummah via assisting in developing SMEs.

**Key words:** *Zakah, Waqf, SME, Development, Malaysia*

**Introduction:**

Zakat and Waqf institutions have played a significant role in the socio-economic development of Muslims throughout Islamic civilization. This role had declined during the colonial period but is now being revived by several contemporary Muslim countries. This research was conducted to harness the potential of these two institutions and direct them to enhance the socio-economic development of the Ummah. The research has integrated Zakat and Waqf and SMEs into a model to address the two constraints of SMEs: human capital and shortage of funds for specific purposes.

Apart from the model construction, the proposed research also has taken a critical look at the state of SMEs in Malaysia. Specifically, the research has analyzed the actual practice and potential of Zakat and Waqf to contribute to the enhancement of SMEs. This study will enable policy makers to plan and focus on more effective measures to enhance the potential of Zakat, Waqf and SMEs institutions in their development plans/strategies among the Muslim countries in general and Malaysia in particular.

**Background:**

Zakat and Waqf institutions have played a significant role in the socio-economic development of Muslims throughout Islamic civilization. This role had declined during the colonial period but is now being revived by several contemporary Muslim countries. This research intends to harness the potential of these two institutions and direct them to enhance the socio-economic development of the Ummah. To achieve the desired result effectively, there is a need for utilizing the potential of vehicles such as Small and Medium Enterprises (SMEs) given their representation of over 90% and considerable role in almost all modern economies globally. The two major fundamental challenges of SMEs have been sustainable financing and human capital development. These could be overcome if there are sustainable and steady flow of funds from institutions such as Zakat and Waqf.

Presently, however, these two institutions, Zakat and Waqf, have not been presented with such opportunities whereby channelling their funds for (i) financing investments and (ii) sustainable human capital development programs through SMEs could greatly enhance the Maslahah of the Ummah. Hence, the present study has tried to develop a viable integrated Zakat-Waqf-SMEs model to demonstrate that it is possible to effectively integrate modern institutions such as SMEs with traditional Islamic institutions of Zakat and Waqf. The motivation for developing the model also emanates from best practices of some advanced countries particularly, Taiwan, Korea and Singapore where SMEs have great contribution in their economic growth.

This study is expected to further enhance the role Malaysia is playing in maximizing the potential of zakat towards financing the development of SMEs, to complement the huge public funds being allocated for SMEs.

**Objectives:**

This project integrates the role of Zakat and Waqf institutions with SMEs for financing and developing human capital in SMEs. This integration is expected to have far reaching implications and impacts on the socio-economic development of Muslim countries.

Accordingly, the proposed research has the following specific objectives:

- I. To survey the literature on SMEs particularly in Malaysia, identifying their challenges - focusing on finance and human resource, and their impact upon operational efficiency. The survey will also try to draw lessons from the best practices of SMEs in selected countries.
- II. To study the potential of Zakat and Waqf for sustaining and enhancing SMEs development.
- III. To develop an integrated Zakat-Waqf-SMEs (IZWS) model that will address SMEs' challenges of finance and human resource.
- IV. To study the perception of relevant stakeholders on the model developed.
- V. To provide policy recommendations to relevant authorities and stakeholders to successfully implement IZWS model.

**Methodology:**

The proposed research is both qualitative and quantitative in nature. The study made use of the existing literature documented in the form of reports, books, and journal articles, etc. for critical evaluations of SMEs, Zakat and Waqf in Muslim countries. Policy manuals on existing policies and, programs by government and non-governmental bodies were also analyzed and incorporated in the construction of the integrated Zakat-Waqf-SMEs Model.

Interviews conducted with selected personnel from Zakat and Waqf agencies in Malaysia.

## **Findings:**

Among the salient findings of this project:

1. SMEs, particularly the micro-enterprise component are still in need of financing and human resource development despite the continuous huge support from the Malaysian government.
2. The role of the Zakat institution in Malaysia has improved significantly over the last 3 decades, with many SIRC's having active programmes to assist the poor and needy.
3. The waqf institution is still an underdeveloped and underutilized institution in the Malaysian context. Most waqf properties are in the form of land and very little effort has been made to shift attention to developing SMEs.
4. There is great potential to channel zakat and especially waqf (cash waqf included) to specific programmes that enhance the level of knowledge and skills of SMEs. Zakat and Waqf can play a complimentary, but important role to change the mind-set of the mostly Muslim SMEs in Malaysia.
5. New forms of Waqf such as corporate waqf can also be developed and channeled to improve SME development.
6. It is also important to have progressive reforms made in zakat and waqf institutions in Malaysia to allow them to play a bigger role in the socio-economic development of the Muslims and poor in general.

**Conclusion:**

Zakat and Waqf have a specific role in SME development in Malaysia. With the already huge public funding available for SME development, zakat and waqf funds should be targeted initially at developing human capital- focusing on attitude and skills/knowledge transformation, especially among potential Muslim entrepreneurs.

Very important to bring together all stakeholders to work collectively to develop and implement the proposed models developed in this study.

**Output:**

1. 1 book
2. 3 potential journal articles.

**Future Plan of the research:**

1. Micro research/Case studies on successful SMEs
2. Micro research/case studies on failed SMEs

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