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FINANCING SOCIO-ECONOMIC DEVELOPMENT WITH *ZAKĀT* FUNDS

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Abstract

All signs of underdevelopment including a low per capita income, a large subsistence sector, high population growth, low productivity, low level of resource utilization and poor infrasructure are present in most Muslim countries. Therefore, the Muslim countries are in dire need of innovative approaches to finance development of various sectors. The present study proposes a mechanism for utilizing *zakāt* funds into long-term investments for the sake of socioeconomic development. The establishment of a financial institution under the name of "*Awqāf-Zakāt* Investment Fund" is proposed which shall be registered as a *waqf* but operate as a profit-seeking corporation. The mechanism is demonstrated to be consistent with the *Sharīʿah* requirements. In particular, the operational mechanism accommodates the *fiqhī* positions regarding immediacy of essential needs of the *zakāt* beneficiaries, exposure of their *zakāt* shares to business risks, *tamlīk*, and preference to distribute *zakāt* locally. Investment policy of the Fund and its contribution towards socioeconomic mechanism is also highlighted.

1. Introduction

Zakāt is one of the five fundamental pillars of Islam. It is a continuous obligation on the rich for the welfare of the poor in an Islamic community. The Qur'ān has repeatedly exhorted Muslims to pay *zakāt*. Therefore, naturally discussions on various matters related with *zakāt* permeate through the Islamic literature. *Zakāt* is deemed to have spiritual, moral, social, political, and economic implications. The issues discussed are multifarious including, exemption limits for the items subject to *zakāt*, rates of *zakāt* on various zakātable properties, administration and management of *zakāt* fund through the *bayt al-māl* (treasury), eligibility criteria for receiving *zakāt*, impact of *zakāt* on poverty, income inequality, and social security, and the role of *zakāt* towards alleviation of social tensions and social crimes. Economists have been discussing economic implications of *zakāt* on consumption, savings, investment behavior, income multiplier, allocation of resources, efficiency, productivity, economic growth, trading, inflation, employment opportunities, labour participation, economic stability, and so on. Opinions of scholars are not unanimous on several matters, and therefore a number of issues remain controversial. This study takes up the issue regarding the investment of *zakāt* funds for financing socioeconomic development in the Muslim countries.

The need to develop the institution of *zakāt* as an important tool for financing development in Muslim countries is slowly gaining recognition, though belatedly. Tan Sri Dato' Jaffar Hussein, Governor of Bank Negara Malaysia, advanced this proposal during the Third International Conference on Islamic Economics in January 1992. He put down the total *zakāt* collection at RM13.3 billion per year, provided it is collected from all those who are obliged to pay.[1]

The proposal to channel *zakāt* funds into long-term investments in order to accelerate the pace of development in the Muslim countries breaks fresh ground in *zakāt* utilization strategy, especially in view of the economic profile of most Muslim countries. To put it briefly, most Muslim countries are characterized by a low per capita income, an unduly large subsistence sector, a high population pressure, low agricultural productivity, an extremely low level of natural resource exploitation, a high rate of unemployment, an acute scarcity of skills development programs, and a rather weak institutional and physical infrastructure. Hence the need to explore new and innovative approaches to finance development is all the more urgent and crucial.

The primary objective of this paper is to propose a mechanism that would allow channelling of *zakāt* funds into long term investments and thus contribute toward economic development in the Muslim countries. I propose that a special financial institution be created out of the *zakāt* funds in order to invest them into long-term projects. The mechanism is compatible with the *Sharīʿah* requirements as well as the existing systems for collection and distribution of *zakāt*.

The proposed mechanism is outlined in section 2, while *Sharīʿah* compatibility of the mechanism is discussed in section 3. Section 4 presents the *modus operandi of* the proposed institution in terms of organizational strategy, investment policy, and potential for capitalization of the proposed institution. Section 5 warns of potential problems, while the last section delineates the socioeconomic advantages of the proposed mechanism.

2. Proposed Mechanism

The proposed mechanism has five interrelated components. First, it is envisaged that *zakāt* donors would continue to pay *zakāt* to the present *zakāt* agencies responsible for collection and distribution of *zakāt* in respective countries, such as Baitul Mal in Malaysia, *Zakāt* Collection Committees in Pakistan, and *Zakāt* House and voluntary associations in Kuwait. This means that there is no need to make any changes in the *zakāt* collection mechanism followed in a country.

Second, a new financial institution shall be established under the name of "*Awqāf-Zakāt* Investment Fund" (AZIF). The AZIF shall be registered as a *waqf* institution for according permanent existence but it shall operate as profit seeking corporate venture. The AZIF may have its branches and affiliate offices throughout the country. This will be the key institution responsible for financing development by channeling *zakāt* funds into long-term investments.

Third, the *zakāt* collection agencies shall use accumulated *zakāt* funds for purchasing shares of the proposed institution. Thus the *zakāt* funds will comprise the paid-up capital of the AZIF. These shares will be negotiable and transferable. These shares may be issued in various denominations. For convenience of *zakāt* beneficiaries, however, it is suggested that each share of the AZIF be worth a currency unit of the country concerned, e.g., one ringgit in Malaysia, one rupee in Pakistan, and one dinar in Kuwait.

Fourth, the *zakāt* agencies shall distribute these AZIF shares to the beneficiaries of *zakāt*, in lieu of money, in the usual manner.

Fifth, in order to cater for the essential needs of the *zakāt* recipients, arrangements shall be made with prominent retail outlets for cashing the shares at a price not less than the face value of the shares. The retail outlets may include general stores, banks, post offices, etc. Shares held by the *zakāt* recipients and the authorized outlets shall also be redeemable at the AZIF centres at their face value or market value, whichever is greater.

For the mechanism to function smoothly and efficiently, both the primary and secondary markets are necessary. While the existence of a primary market is needed for providing financial resources to the AZIF for employing them productively for development purposes, the existence of a secondary market is essential to help the *zakāt* beneficiaries liquidate their investments whenever they feel the need to do so. The mechanism is illustrated in Figure 1 (see Appendix A).

3. *Sharīʿah* Compatibility

It is essential to discuss answers to some fundamental questions, particularly from the *Sharīʿah* angle, to assess the legitimacy of the proposed mechanism. Specific questions that must be addressed include: -

a) Is it permissible to channel *zakāt* funds into investment projects?
b) Can the proposed institution be formed as a *waqf* but managed as a corporation?
c) Is distribution of shares compatible with the *Sharīʿah*, and does it uphold the principle of *tamlīk?*
d) Is it possible to follow the *Sharīʿah* preference for distributing *zakāt* locally?
e) Is it possible to use AZIF shares in lieu of cash for buying commodities? and
f) Is it feasible to redeem AZIF shares at or above their face value?

3.1 Permissibility of Investing *Zakāt*

At present, the *zakāt* funds accumulated with the *zakāt* agencies remain idle either in their own depositories or in current accounts in the banks. Keeping funds idle is in violation of Qur'ānic injunctions against "hoarding" and in favour of a "wide circulation" of funds. *Zakāt* funds would not sit idle if there existed a complete synchronization between the *zakāt* inflows (collections) from the donors and *zakāt* outflows (disbursements) to the beneficiaries of *zakāt*.

For example, in Pakistan, it was estimated that *zakāt* funds to the extent of 63% were lying idle in 1985-86. During 1988-89, out of receipts of Rs 2.195 billion, only Rs 1.215 billion (55%) was disbursed, which raised the level of idle funds to Rs 3.172 billion. There was an idle bank balance of Rs 4.387 billion on June 30, 1989. These funds were lying in the current account with the State Bank of Pakistan without earning anything.[2]

The question here is: What should we do with the money that remains idle from the time of collection to the time of disbursement? The answer, by analogy, is provided in a *ḥadīth* which urged those who were responsible for managing wealth of the orphans to invest the wealth in profitable ventures to prevent its gradual erosion due to *zakāt* on it.[3] In other words, channelling of private idle wealth of orphans into profitable projects is encouraged, knowing that the investment, if lost, would ruin the future of the orphans. The *zakāt* fund, as a public property, has a status similar to the orphans' wealth, because in both cases the managers of the property are mere trustees of the stipulated beneficiaries. It would therefore be safe to conclude that, from the *Sharīʿah* viewpoint, there is no objection to channelling the *zakāt* fund into profitable ventures, especially when the public funds are utilized for welfare of the public.

The beneficiaries usually receive *zakāt* sufficient to cover their expenses for a complete year. *Zakāt* is received once a year, while the expenditures are spread over the entire year. Therefore the recipients of *zakāt* carry some idle balances throughout the year. Are they barred from investing those idle balances? Certainly not. In fact, it is more sensible to invest those balances and make an attempt, over time, to pull the beneficiaries out of the category of *zakāt* recipients.

They should, by all means, be encouraged to avail the opportunities leading to self-help. The Prophet has encouraged investment by helping a needy person to buy an axe to cut wood instead of just giving a dole to meet the immediate requirements of the needy.[4] The investment mechanism proposed here ensures that the unused portion of *zakāt*, instead of lying idle, is channelled into profitable projects on behalf of the *zakāt* beneficiaries.

Investment of *zakāt* proceeds in commercial ventures, albeit within the framework *of Sharīʿah*, needs careful consideration. *Fuqahā'* have hesitated to permit investment *of zakāt* funds, not because there is anything in the Qur'ān which explicitly or implicitly mitigates against such investment, but because they fear that investment may result in deferment of the immediate consumption needs of the beneficiaries, and that it may not be prudent to expose them to business risks.[5]

The proposed mechanism, however, gives due consideration to the concerns of the *fuqahā'* regarding the immediacy of essential needs and the supposed business risks. First, investment through AZIF would not delay distribution of *zakāt* to the beneficiaries although the *zakāt* will be given in the form of cashable shares, rather than cash money. However, the shares can be used to buy commodities like money. So the beneficiaries would not need to defer their consumption needs.

Second, the AZIF will be required to invest the *zakāt* funds into a diversified portfolio so that the likelihood of financial loss is minimized. In addition, insurance may be provided by the government by simply commiting callable capital to cover capital loss if it ever happens. Alternatively, the AZIF may build a "loss reserve account" from its earnings over time. In fact, use of *zakāt* funds for investment in projects, whereby some *zakāt* beneficiaries as a group may become financial partners in certain productive projects, as required when investing through the AZIF, has been found compatible with the requirements of the *Sharīʿah* during an *ʿulamā'* convention held in Pakistan.[6]

3.2 Establishing AZIF as *Waqf* and Corporation

Waqf is defined as taking the corpus of any property out of the ownership of oneself, transferring it permanently to the ownership of Allah, and dedicating its usufruct to others. The corpus of the property is detained and the income from the corpus is applied according to the terms and conditions of the *waqf*.[7] Therefore, by virtue of being a *waqf*, the AZIF will retain permanency.

The AZIF, being a *waqf*, will also observe the four requirements of *waqf*[8] comprising:

- (i) endower,
- (ii) target beneficiaries — persons as well as purposes,
- (iii) endowed assets, and
- (iv) legal forms and terms of *waqf contract*.

In the case of *waqf*, it is stipulated that the *mutawallī* (manager) of a *waqf* must be mature, with a sound mind, honest and trustworthy with no known taints of immorality, and should also be capable of managing and controlling the property personally and / or through other capable managers. The management has rights[9] to:

- (i) recover possession of *waqf* property,
- (ii) appoint a successor,
- (iii) borrow,
- (iv) sell and exchange *waqf* property, and
- (v) incur *waqf*-related expenditure.

Waqf resembles a corporation because:

- (i) a *waqf* is juridical person like a corporation, having existence only in law;
- (ii) the principle of separation of ownership from management, as applied to corporations, also holds for *waqf*; and
- (iii) both a *waqf* and a corporation are permanent entities.

However, a corporation may come to an end through voluntary winding up or compulsory liquidation. It is proposed that the AZIF be formed as a *waqf*, but be operated as a corporate body because a corporation can be liquidated while a *waqf* cannot be liquidated.[10]

3.3 Issues of *Tamlīk* and *Zakāt* Distribution in Shares

The *zakāt* distribution can take the form of direct support to buy productive tools or establish a shop; and periodic payments to the beneficiaries. Since AZIF shares would represent ownership of production and commercial assets, such as machines and shops, it is compatible with the *Sharīʿah* to distribute *zakāt* in the form of shares that represent ownership of productive assets.

Many scholars insist that *tamlīk* is an important condition to be fulfilled in the matter of disbursement of *zakāt*. *Tamlīk* means that *zakāt* should be disbursed in such a way that the beneficiaries of *zakāt* become exclusive owners of what they receive as *zakāt* and can use it as they wish. Distribution of *zakāt* in money form may be the preferred form of allocating assistance as it fulfills the *Sharīʿah* requirement of *tamlīk* by transferring ownership completely to the recipients so that the beneficiaries may utilize those funds in a manner they prefer. *Zakāt* assistance given in the form of shares would uphold the principle of *tamlīk* as well as provide complete freedom to the beneficiaries in disposition of the shares. In other words, disbursing *zakāt* in the form of AZIF shares would fully satisfy the condition of *tamlīk* in favor of *zakāt* beneficiaries.

3.4 Localized Distribution of *Zakāt*

According to Abū ʿUbayd, the prophetic sayings stress the fact that when *zakāt* is collected from a locality, it should be distributed within the same locality if it can be demonstrated that they are in need of it.[11] This principle would also be upheld when distribution is performed in shares rather than money.

Realizing that the poor of a certain locality are accorded the first claim on the *zakāt* collected from the rich of that locality, it may be made mandatory that a certain proportion of shares shall be disbursed only to the residents of the particular locality. If such policy is adopted, then the shares must be marked for their regional identification.

In addition, funds may be earmarked for development of local infrastructure, education, industries, agriculture, and handicrafts in which local people can be gainfully employed. Preference may be accorded to local projects, with local employment, local management, and local social and official accountability to whatever level is prudent, so that the public is vigilant of its activities and performance. The idea is to make it easier for the donors to see the operation of the AZIF and appreciate its achievements in the respective localities. These steps will certainly improve social cohesion.

3.5 Acceptability of AZIF Shares by Retail Outlets

In the United States, food stamps with denominations of one dollar, five dollars, and ten dollars are given to the poor. The food stamps are freely used by the beneficiaries to make purchases of essential goods from the authorized retail outlets. Similarly, Zakāt House in Kuwait gives coupons to *zakāt* recipients. These coupons can be exchanged in some supermarkets to purchase a wide range of choices of food needed by the beneficiaries.[12] Moreover traveller's cheques issued by various financial institutions are used for shopping throughout the world. The AZIF shares, being certificates of various denominations, just like the traveller's cheques, coupons and food stamps, can likewise be used at the specified retail outlets to purchase necessary commodities.

3.6 Business Risk

As a financial institution, the management of the AZIF would know very well how to channel the funds into profitable investments in order to protect the wealth from unnecessary loss. In this regard, conducting project appraisal, analyzing financial statements of the entrepreneurs, and asking for some kind of collateral are some means of preventing the element of risk and possibility of loss down to a minimum.

In view of the fact that the AZIF will be required to invest the *zakāt* funds in participation with Islamic banks and other prominent financial institutions in a diversified portfolio, the profit or loss of the AZIF would not depend exclusively on the performance of a single project. With a diversified portfolio, even though loss might occur in some projects, it would be compensated by the profits from the remaining projects. Therefore, the final outcome of the investments made out of the pooled *zakāt* funds would normally be positive. This also means that the AZIF shares would command a market price which would necessarily be higher than their par value.

4. *Modus Operandi* of AZIF

It cannot be overemphasized that the challenge of conforming to the *Sharīʿah* is by no means confined to determining the legitimacy of various characteristics of the proposed mechanism. On the contrary, it is much broader and extends to a much larger field. The AZIF is clearly responsible and expected to incorporate the Islamic objectives and values into its overall policies. This section takes up for some broader aspects in matters related to organization, investment and modes of financing, and potential sources for the capitalization of the AZIF.

4.1 Organization Strategy

The AZIF should be an independent autonomous body. Commercial, economic, social, and religious activities of the AZIF should be well defined. All shareholders, staff, project partners, and others associated with the AZIF must be Muslims, as *zakāt* money cannot be entrusted to non-Muslims.

A comprehensive network covering all regions in each country must be developed to undertake AZIF's activities. A high-level Trustee Council should be formed in each region consisting of competent professionals and *Sharīʿah* scholars trusted by the communities in the region. *Sharīʿah* control over the issuing, flotation, dealings, and so on should be performed by an independent *Sharīʿah* board. The board shall be given the right to access, review, and examine all documents deemed necessary for performing its obligations.[13]

An administrative structure should be designed to clearly delineate financial rules and regulations regarding funding, investments, administrative expenses, periodic assessment, inspection and auditing controls, identification of legitimate owners of AZIF shares, timely disbursement of dividends, grievance submission and handling of grievances, and the like. A committee should be set up to review compliance of the administrative performance with the laws and regulations. Control measures to preempt violations and prevent misuse may also be formulated.

The need for developing proper systems and procedures for accounting and financial controls for the AZIF cannot be overemphasized. This is a matter which requires early attention to ensure that the AZIF has a foolproof system of financial control. If the systems and procedures are allowed to sprout without proper planning, it will cause a great deal of trouble later, if not defeat the pupose altogether.[14]

The staff of the AZIF should be knowledgeable and committed to their concern regarding the problems of the Muslims in their communities. They must be competent and qualified to do the job. There must be conditions of service that guarantee the necessary means of living to the employees. The AZIF may require that a certain percentage of jobs be reserved for *zakāt* recipients with the requisite qualifications. Training schemes may have to be organized for the eligible employees. Training is essential to develop the capabilities and skills of the poor, unemployed youth and to meet the shortage of experienced and efficient personnel. AZIF, run by people of integrity, competence, piety and knowledge would certainly enhance the size of *zakāt* collections, thereby contributing proportionately to the AZIF's capital.

The AZIF should establish contacts with businessmen and commercial firms and companies in order to clarify its role in revivifying the duty of *zakāt*, as well as in consolidating the relationship with leading businessmen and the donors. It should arrange personal interviews and visits with them to explain the activities and achievements of the AZIF. The AZIF should seek to make use of the mass media to acquaint people with the duty of *zakāt* and explain various activities of the AZIF in accordance with its policy of paying due attention to information and public awareness.

Successful growth and continuity of the AZIF depends in a large measure on the confidence of the donors and the primary subscribers in the organization. The donors and the primary shareholders should be regularly informed of the results and operations through periodic reports. Awareness among the people that *zakāt* funds are employed in gainful activities would impart confidence and provide motivation to those who currently shy away from trusting their *zakāt* contributions to the official *zakāt* institutions.

In the most unlikely circumstances of insolvency, the losses, if any, must be guaranteed by the government in terms of callable funds to cover such losses. It will have a two-fold advantage. First, the government need not hand over the callable capital until an emergency arises due to capital loss. Second, the callable capital backing would certainly strengthen the credit-worthiness and confidence in the AZIF.

4.2 Modes of Financing and Investment Policy

It is important to realize that besides steering clear of interest, the AZIF must have a moral dimension in its operations and policies in that it must operate in consonance with the value system of Islam and in furtherance of the socioeconomic goals prescribed by it, such as the welfare of the poor and relief of their hardships.

Priority should be accorded to agriculture, low-cost housing, food, clothing, medical facilities, and education. Projects designed to meet essential needs of the community have to be financed to the exclusion of luxury and nonessential items. The AZIF should identify the productive tools and consumption goods of common use by the people of small means and accord priority to investing in their production, like sewing machines, clothes, shoes, dwelling houses, small poultry farms, and handicrafts. The AZIF has to follow a basic needs approach and a policy of noninvolvement in prestigious projects that are not likely to benefit the masses.

Indeed, the need for an extensive role of the AZIF in financing agriculture can hardly be overemphasized. Most Muslim countries are experiencing rapid population growth, and the need to step up the production of food is rather acute. Agriculture is the source of livelihood for the bulk of population in these countries, providing more employment to the poor, the unskilled and semiskilled labour than the other sectors. Even viewed from the standpoint of income distribution, agriculture deserves special attention as the source of income and welfare of the major part of the country's population. Therefore, the AZIF should look for projects in the field of livestock, agricultural estates, seed production, forestry, production of fruit and vegetables, fisheries, poultry, and dairy products like eggs, milk, and butter. It would also be worth while to seek projects in agricultural industries and commercial development of farms and fishing areas, storing, packaging, processing, and marketing of agricultural projects and industries. Construction of dwelling houses and production of consumer durables deserve special consideration.

All the projects undertaken should be profit oriented. It is of utmost importance that a high degree of profitability be aimed at — for the simple reason that it would be next to impossible for the AZIF to augment its funds and mobilize new resources simply through a religious appeal.[15] It is expected that the AZIF would finance such projects and enterprises which are technically sound, and economically and financially viable. It should be made clear that preference should be given to projects with high financial and economic rates of return, and which demonstrate clear effort towards promoting welfare and self-assistance for the *zakāt* recipients. Improved housing facilities, health services, training programs, educational institutions and a number of similar services may be initiated for this purpose.[16]

Investment in infrastructure in areas of poverty, as well as maintenance and operation of existing infrastructure, is necessary to create an environment conducive to the health and economic development of the poor. Developed rural infrastructure will also facilitate transition from a rural to a commercial and industrial base. Emphasis should be given to labour intensive projects in labour abundant countries, including Islamic hotels and development of tourist resorts.

Realizing that the conventional forms of placement of funds are ruled out by virtue of the requirement regarding conformity with the *Sharīʿah*, it is essential to explore other modes of placement, such as investment in stock markets, unit trusts, mutual funds, real estate markets, and commodity markets.

The AZIF may finance most long-term private and public ventures on the basis of *muḍārabah, mushārakah, istithnā', sharīkah mutanāqiṣah, murābaḥah,* and other

Islamic modes of financing. Major consideration in the selection of projects must be their realizable profitability, as the funds of the *zakāt* beneficiaries are not to be wasted on the pretence of their being social goals oriented. Social programs may, if at all, be financed only from the realized profits and not from the capital of the AZIF.

AZIF, with its branches and its affiliate offices, should encourage reputable investors and establishments, and financial, commercial, industrial, and service institutions to participate in diversified investment projects in the specified fields. AZIF may also develop the capabilities of the small scale industry investors who possess the technical and managerial knowhow but lack the necessary funds to start or widen the scope of their existing activities.

4.3 Potential Sources of Capital

Cumulative *zakāt* funds lying with the *zakāt* collection agencies are readily available money for capitalization of the AZIF. Additional sources for capitalization of the AZIF are as follows:

a) *As zakāt* becomes due every year on the well-to-do people in each Muslim community, capital subscription of the AZIF would increase every year and will continue to expand over time.

b) *Zakāt* on wealth held or managed by companies, financial institutions, employers, provident fund of employees, investment trusts, share certificates, savings, or fixed deposits deducted at source may be used directly to purchase AZIF shares.

c) Capital may be raised by upgrading the *zakāt* collection efforts. The gap remains wide between the assessment of *zakāt* on available wealth in the Islamic countries and what is collected out of it by these bodies. *Zakāt* has the potential of mobilizing substantial resources because the *niṣāb* is low and the base of levy is fairly wide. In fact, the base is so wide that almost everyone except the poor has to pay something by way of *zakāt*. In certain country studies, *zakāt* has been found to have the potential of transferring 3-4% of gross domestic product every year to poorer sections of the population.[17]

   At present *zakāt* is not collected against all stipulated zakatable items in any Muslim country. Therefore, much of the *zakāt* potential remains unrealized. For example, in 1988, only about 8.3% of the total *zakāt* was collected and paid to the religious councils in Malaysia. A balance of 91.7% (or RM 335.68

million) remained uncollected or unpaid.[18] In Sudan, *zakāt* proceeds are insignificant relative to GDP, and *zakāt* collected as a percentage of agricultural output falls in the range of 0.40%-0.88% only. If proper collections were made then mere *ᶜushr* from agriculture output should fall between 5-10% of agricultural output in the country.[19]

d) Cash *waqf* may be channeled into long-term investments. Investment of *waqf* cash is already in practice. For instance, in Turkey, the General Directorate of the *Evkaf* established the Turkish Evkaf Bank in 1954 holding 75% shares of the bank. The income from the bank is spent on management, restoration and other needs of the *awqāf* properties.[20] In Uganda, *awqāf* properties are managed by the Uganda Muslim Supreme Council, directly or through Industrial and Commercial Holdings, a body established by the Uganda Muslim Supreme Council. Industrial and Commercial Holdings are managing eight agricultural estates, one factory producing envelopes, one factory producing brushes, four cattle ranches with 500 heads of cattle, and residential and commercial buildings situated in Kampala and Jinya.[21]

Anas Zarqa has proposed to place some existing *awqāf* properties on "*ḥikr*,"[22] and the cash so obtained be invested through the AZIF.

The income so obtained from these shares can be the income realized by the *waqf* authority, while the shares themselves can be retained permanently and cannot be sold except for using their price to buy other shares of another kind. In this way, the value of investment is not decreased but is increased, while the expenditures would be met out of the profits generated from the investment.

5. Challenges

While it would be unrealistic to overemphasize the benefits such a scheme can bring, it would also be fatal to gloss over the problems and difficulties that may arise.

In making investment contracts on the basis of *muḍārabah* and *mushārakah,* the AZIF must not lose sight of the serious consequences resulting from the profit-loss sharing (PLS) nature of the contracts, absence of the financier's intervention in entrepreneur's activities in case of *muḍārabah* contracts, preferences of the entrepreneurs to resort to "tricks of the trade," inadequate record keeping on the part of the entrepreneurs, customers with feeble religious faith out to embezzle funds by misinterpretations of the Islamic provisions, and lack of suitable primary and secondary markets.[23] For instance, the Islamic Development Bank equity operations have dropped sharply in view of the bank's unhappy experience with several of its equity investments. It appears that many of the projects financed by the Islamic Development Bank are facing difficulties of one type or another, related to project implementation, production, marketing and other operational or financial aspects.[24]

It is also important to realize that vast properties in most Muslim countries used to be in the nature of *waqf*. For instance, in the first quarter of this century, arable land up to 12.5% in Egypt, 33% in Tunisia, 50% in Algeria, and 75% in Turkey were *waqf* lands. But, despite land being a prominent factor of production, most of the *awqāf* were poorly managed. Such holdings in the hands of incompetent *mutawallīs* (managers) proved a handicap to the growth and development of a healthy national economy.[25]

6. Contribution Towards Socio-Economic Development

Specific benefits of the proposed mechanism in terms of self-support to the individual *zakāt* beneficiaries and its potential to contribute toward development of agriculture, rural programs, education, health, utilities, infrastructure and services cannot be denied. Such development would definitely reduce the incidence of poverty which is rampant among Muslim countries, and among Muslims in multiracial countries. For instance, in Malaysia, the incidence of poverty in 1984 for Malay, Chinese, and Indian households was 25.8%, 7.8%, and 10.1%, which fell to 23.8%, 7.1%, and 9.7% respectively in 1987.[26] The incidence of poverty among Malay Muslims is the highest in Malaysia. The proposed mechanism has the potential to reduce poverty and tendency to make them self-supporting.

Some other advantages that could be reaped through the mechanism delineated above are as follows:

a) All *zakāt* money would be transformed into long-term investment shares, and the shares would be saleable in the market and cashable for purchase of necessities of life at retail outlets. So the recipients are able to obtain full control of their rightful ownership in the form of the AZIF shares. The beneficiaries may also be able to use these shares for making transactions in amounts and manners deemed fit by them. In addition, being shareholders, they would be entitled for dividends declared by the AZIF from time to time. The beneficiaries would enjoy the further advantage of flexibility in cashing their shares and entitlement to periodic income.

b) Some members of the society are permanently placed in the category of *mustaḥaqqīn* (eligible) for receiving *zakāt* for meeting their basic human needs in terms of food, clothing, shelter, and medical care, because of some permanent disability like being invalid, blind, chronically ill, senior citizens, and orphan children. Others may fall in this category because of involuntary unemployment. In fact, these people are entitled to perpetual help which is possible from a perpetual income stream in the form of dividends from the investments made by the AZIF. The poor and the needy will benefit directly in the form of dividend earnings and also indirectly from the increased supply, and concomitant fall in the prices of the goods commonly used by them.

c) There may be an additional advantage for the handicapped and physically disabled in receiving shares, instead of cash, because they may be able to manage their investments even if they cannot perform physical tasks.

d) Those who are unable to work due to, say, physical disability, old age, or illness should be provided with sufficient resources to relieve their hardship. The incomes of those who are not able to earn enough for ensuring a basic minimum standard of living for themselves and their dependents should be supplemented by transfers in cash and kind. However, maximum effort should be exerted to use the proceeds of *zakāt* in such a manner that the recipients become self supporting in due course of time. It has been emphasized that *zakāt* proceeds should be disbursed in such a way that the self-respect of the recipients is not hurt. Disbursement of *zakāt* in the form of AZIF shares would preserve anonymity and enhance dignity of the regular recipients of *zakāt*.

e) The establishment of the AZIF will certainly lead to a wider public participation in the stock market, particularly of those who are interested in *zakāt* related projects. In this way it will become a catalytic force for the development of primary as well as secondary markets in the Muslim countries.

7. Conclusion

Thus, it may be seen, the channelling of *zakāt* funds into long-term investments is a viable proposition that may well accelerate the pace of development in the Muslim countries. Hence, the proposal to set up a suitable financial institution such as AZIF calls for early and serious attention of all those interested in the economic and social development of Muslim countries.

End Notes

1. International Islamic University, p. 21.
2. Khan, pp. 43-50.
3. Bayhaqī, p. 107 and al-Haitmi, p. 67.
4. Ibn Mājah, p. 338.
5. Imtiazi, p. 15.
6. Ahmad, p. 54.
7. Hashmi, p. 19.
8. al-Amin, p. 17.
9. Hashmi, pp. 21-22.
10. *ibid*, p. 201.
11. Shihata, p. 61.
12. al-Omar, p. 144.
13. El-Karanshawy, pp. 12-14.
14. Meenai, p. 177.
15. *ibid*, p. 166.
16. Zaim, p. 117.
17. Ahmad. pp. 50-52.
18. Othman, p. 49.
19. Salama, pp. 7-10.
20. Islamic Research and Training Institute, pp. 135-136.
21. *ibid*, p. 137.
22. al-Zarqa, p. 48.
23. Zandou, pp. 14-16.
24. Meenai, p. 74.
25. Hashmi, p. 23.
26. Othman. p. 34.

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APPENDIX A

FIGURE 1

FLOW OF ZAKĀT FUNDS