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## Role of Zakat in Encouraging Real Investments

### Introduction:

God the Almighty (SWT) created man and appointed him as his vicegerent on earth. Such an agency relationship drives man to act as a trustee on the wealth existing on earth which implies his accountability. To make sure that man follows the right path, God gave him guidelines and principles to adopt good actions, and warnings to avoid unlawful acts.

Riches and wealth are distributed according to God wisdom and directives. However, distribution of this very wealth has been regulated by divine laws and regulations: The Shariah

Those having excess in wealth are bound to pay Zakat, to purify their wealth and make sure the needy and deserving categories of people are given their portion of such a wealth. In parallel, God depicted methods of wealth acquisition guided by divine directives and stipulated both the do's and the don'ts in business dealings in order to avoid unlawful ways of wealth acquisition such as Riba, Gharar, Gambling, and all those activities, deemed prohibited in Islam including bribery, smuggling and money laundering. Other ways of creating wealth that violate the rights of third parties are also prohibited such as causing harm to the community and other negative externalities.

God (SWT) said "O Ye who believe! Eat not up your property among yourselves unduly. Let it be trade amongst you by mutual agreement". (Surah Al Nisa, Verse 29)

### What is Zakat?

Zakat is one of the five pillars of Islam. The literal meaning of the word Zakat is "to cleanse" or "purify". Paying zakat on one's wealth purifies and increases the remainder of it, it also serves as a reminder that everything we own belongs to Allah, which induces man's vicegerence on earth.

The Prophet (Peace be upon him) said "Whoever pays the zakat on his wealth will have evil removed from him" (Ibn Khuzaimah and at-Tabaraani)

Zakat is only payable on assets continuously owned over one lunar year that are in excess of the Nisab, "a minimum monetary value". The Nisab is calculated after adding the cash value of zakatable assets (gold, silver, cash, stocks, merchandise for business, livestock etc.). Personal assets such as clothing, household furniture, one's residence etc. are not considered zakatable assets. The Nisab for gold and other money is the equivalent value of 85 grams of gold at world prices. The amount of zakat to be paid on capital assets (e.g. money) is 2.5%. Zakat is additionally payable on agricultural goods, precious metals, minerals, and livestock at a rate varying between 2.5 and 20 percent, depending on the type of goods. The amount is one tenth of the production of the non-irrigated and undeveloped land and one twentieth of the irrigated and developed land.

Thus the rate of Zakat and the amount of Nisab is dynamic with a given minimum. However, the amount is kept open to the consensus of the Muslim community.

Islam defines eight categories of people who are entitled to receive zakat, God (SWT) says "As-Sadaqât (Zakât) are only for the Fuqarâ', and Al-Masâkin and those employed to collect (the funds); and for to attract the hearts of those

who have been inclined (towards Islām); and to free the captives; and for those in debt; and for Allāh's Cause, and for the wayfarer; a duty imposed by Allāh. And Allāh is All-Knower, All-Wise" (Al-Tawba 9:60)

The eight categories stated in the verse above are those living in poverty (the Fuqarā'), those who cannot meet their basic needs (Al-Masākīn), zakat collectors (Al-Āmilīna 'Alaihā), non-Muslims who are sympathetic to Islam (Al-Mu'allafatu Qulūbuhum), people to be freed from slavery or bondage (Fir-Riqāb), those who have incurred overwhelming debts (Al-Ghārimīn), those working for God's way (Fi Sabīlillāh), the homeless and travellers (Ibnus-Sabīl).

### Role of Zakat in real investment

Islam states two methods to incur revenue for the state treasury. Some measures are compulsory such as payment of Zakat and prohibition of interest. Some other measures are optional such as utilization of orphans' wealth, re-investment of cash, leaving one's successors wealthy, avoidance of extravagance and hoarding, maintaining peace and security.

Zakat is a way to redistribute the wealth, thus increasing the flow of cash in the economy with a particular care for the poor, the needy and the dispossessed Muslims.

The foremost and primary purpose of zakat is to distribute the wealth of the community among the poor, as mentioned in the Hadith of prophet Mohamed (pbuh) "If they obey you to do so, then inform them that Allah has made it obligatory upon them to pay Zakat from their wealth. It is to be taken from the wealthy and given to the poor amongst them". (Sahih al-Bukhari, No.1331)

Self-purification is another major purpose of zakat since it is meant to remove the love of wealth from one's heart, a spiritual disease which is greed for profit maximization that could be detrimental to one's beliefs.

Prevention of monopolies in society is another major purpose of zakat.

As part of the Islamic financial system, zakat enhances the volume of production. When collected and distributed among the poor, zakat is spent on various consumer goods which is likely to increase the demand of various products of industries which, in turn, increases production of goods.

Zakat discourages hoarding because it is levied on hoarded wealth. God (SWT) says "O you who believe! Many of the rabbis and priests consume people's wealth illicitly, and hinder from God's path. Those who hoard gold and silver, and do not spend them in God's cause, inform them of a painful punishment. On the Day when they will be heated in the Fire of Hell, then their foreheads, and their sides, and their backs will be branded with them: This is what you hoarded for yourselves; so taste what you used to hoard." (Surah Al-Tawbah Verses 34-35)

Another advantage of Zakat is that it raises savings through investment since it is paid out of the accumulated wealth. Therefore, the saver must, in order to prevent the level of

his wealth from decreasing, invest his wealth to guarantee its evolution and preserve it from being consumed as indicated in the prophet saying (pbuh) "Do not let your wealth be consumed by zakat"

Zakat is also an important means of transfer of wealth within the Islamic financial system. It transfers wealth from one hand to other hands, from the hand of the vicegerent who saves money as a SSU, to the hands of the laboring party as a SDU, who is in need of that money to invest it and create wealth through partnership and investment contracts.

Zakat is also a major factor in the increase in the level of income thanks to the circulation of wealth in the economy. It raises investment through the increase in consumption which in turn engenders an increase in production of goods. It reduces any risks of recession through the right circulation of wealth.

Zakat is a major factor as well in reducing inequality of wealth distribution through redistributing such wealth among the poor and the needy by taking the accumulated amounts in excess from the rich people and making them affordable to the needy and the poor for investment.

Zakat contributes as well in finding strategic solutions for societies and resolve problems such as unemployment. Zakat is given to the needy to increase their income level, thus increase their chances to invest and grow their wealth through using their potentials and creating new job opportunities.

Zakat raises demand for necessities and helps in the economic activity. The needy, after receiving Zakat, will be able to buy and satisfy their needs.

Thus, we can conclude that zakat is a very important tool that helps in stabilizing the economy through a fair distribution of wealth that is likely to minimize the gap between the rich and the poor and eliminate any envy or grudge between social classes in the community.

As indicated in the verse below, Zakat increases wealth and promotes the economy "ALLAH will deprive usury from all blessings and will give increase for the deeds of charity, and ALLAH does not Love every ungrateful wicked." (Surat Al Baqara, verse 276)

