

# Islamic Finance A Support to Development and Economic Growth: the Principle of Zakat as an Example

Saïda Daly\*, Mohamed Frikha

Faculty of Economics and Management of Sfax, Laboratory URECA, University of Sfax, Street of airport, km 4.5, LP 1088, Sfax 3018, Tunisia

\*Corresponding author: [saida\\_daly@yahoo.com](mailto:saida_daly@yahoo.com)

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**Abstract** “Zakat”, the third pillar of Islam, is central in Islamic economic. It is a work of cult financial, purifies the soul and increases its merits, as it purifies the property and increases the wealth. It means etymologically, grow, propose, and be fair and clean. It reduces the gap between rich and poor. The importance of “Zakat” is revealed by the number of Qur'anic verses that advocate the necessity of Zakat and its role as a tool to ensure the socio-economic stability and ensure stabilization the phases of economic cycle. Our purpose, in this study is to present a brief summary related to Islamic finance and bank. We seek to provide some generalities about Zakat such as their main characteristics. In addition, this paper aims at adding to reliable solutions of the menace of poverty in the Muslim community that buttress the payment of Zakah on employment, and on investment. The paper is purely a descriptive research that explores the socio-economic benefits of Zakat and its roles in the economic cycle. In view of this, the paper recommends to those in authority to take a juristic stance on the matter and generate Zakat funds from employment and professional income as well as ensure proper disbursement of the funds to the target group in order to curb the poverty situations. It advocates also the benefits of Zakat in the economic cycle via a comparison of the two contexts (economic cycle with Zakat and economic cycle without Zakat).

**Keywords:** *Economic cycle, Islamic Economic, Islamic Finance, principles, products, Zakat*

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## 1. Introduction

Islamic economic doctrine refers to the entire Islamic studies seeking to identify and promote economic order according to the sacred texts and Islamic traditions. It refers, in the economic sphere, to the system of Islamic finance without interest. Essentially, it based on the prohibition of interest (riba) by Shari'a. This literature appears in the late 1940s and developed in the mid 1960s. Banking system that results developed in the 1970s. The main points of Islamic economics literature are standards of behavior derived from the Qur'an and the Sunnah. These are the Zakat tax basis of Islamic fiscal policy and prohibition of interest. Scholars such as [1,2] and [3] have developed an Islamic economy seeking higher standards of living of the poor. This requires the intervention of the State in areas of equitable access to care and in ensuring that market participants are adequately compensated for their risk exposure and / or reliability. Islamist movements and authors generally describe the Islamic economic system as neither socialist nor capitalist, but rather a third way that avoids the disadvantages of the other two systems. In addition to the prohibition of “Riba” (usury), gharar and maisir (contractual uncertainty and gambling), and illicit activities (prohibited activities related to pork

products, pornography and alcohol), other principles must be taken into account by financial supervisors and respect for Islamic jurisprudence as the obligation to pay an obligatory alms. In fact, more than a religious obligation, Zakat has a central role in the Muslim association. It must be remembered that it was the cause of the first battle alerted by the “Caliph” Abu Baker after the death of the Prophet Mohamed, blessing and salvation of God on him, against those who refused to pay it (ahl al-riddah).

Besides its appearance compulsory and binding dictated by Islamic law, Zakat plays a leading role against the concentration of wealth in the hands of a minority social layer. So it seeks equilibrium and social peace. Zakat is never synonymous with the modern tax because it is characterized by a wider scope. Moreover, as it at most to income and wealth, it also applies to goods latent. The principle of Zakat is presented as an educational exercise because it improves in the individual's responsibility and his obligation to society and he tore his sense of selfishness. The payment of Zakat is not only the achievement of equality, but it seeks, also, to protect Muslim society against the evils of economic tyranny that can easily appear in the absence of a system accuracy when distribution of wealth and income. Thus, paying Zakat, we purify our wealth by sharing with the needy. Zakat tends, also, to purify the human soul as much as possible away from avarice and greed. The intention of

these alms is to help the poor and needy in their financial difficulties. This charity is one of the principles of Islamic finance. The latter is distinguished to the conventional banking by its respect of ethical and moral values that Islamic financial institution, in general, and Islamic banking in particular must respects. In this sense, they appeared in order to meet the desires of Muslim societies to find a formula consistent with the principles of the "Shari'ah" and avoid the application of "Riba". Therefore, Islamic banks emerged as a response to the needs of the population Muslim and an alternative to usurious banks. The first attempt came to establish an Islamic bank in 1963 when it was called the creation of banks of local savings. The bank is required to Ghamr - Arab Republic of Egypt, which was founded by Dr. Ahmad Najjar - President of the International Union of Islamic Banks. This experience lasted about three years but under political constraints, it was abandoned. Then, there was the creation of Nasser Social Bank. It was the first bank that denotes on its law the prohibition of taking or giving interest. The activities and the transactions of Islamic bank are, in the first instance, social in nature than banking. The real interest for the establishment of bank operate in accordance with the provisions of Islamic law is highlighted in the recommendations of the Conference of Foreign Ministers of Islamic countries in Jeddah, Saudi Arabia in 1972. Indeed, the texts of this law are accented on the need for the creation of an Islamic bank in Islamic countries to integrate the various actors in economic activities. As a response to this decision, in 1974 the Ministries of Finance of the Islamic countries have prepared an agreement for the establishment of the Islamic Development Bank. This bank began work in 1997 in Jeddah, Saudi Arabia. The specificity of this bank resides that it is a government bank. It does not deal with individual banking operations. It was not until the year 1975 for the creation of an Islamic bank incorporated that manages its operations in accordance with the "Sharia" Islamic, it is the Dubai Islamic Bank. This bank offers all banking and investment needs of individuals in accordance with the provisions of Islam. Following the emergence of Islamic banks continues and not limited to the Muslim world but it covers almost all world countries. It developed very rapidly over the last decade, from a single BI in 1975 (Dubai Islamic Bank) to more than 300 in 2008 in more than 75 countries. In addition, it is estimated, by 2010, nearly one trillion dollars in assets, and its growth in the next five years is predicted to be two times faster than conventional finance, approximately 15% per year. Over the past three decades, the number of Islamic financial institutions increased by an institution in a single country in 1975 to more than 300 institutions in over 75 countries around the world [4]. These institutions manage about \$ 200 billion funds with more than U.S. \$ 822 billion of total assets [5].

In the present case, we try to give some ideas about the IF. We focus on the Zakat as one of the main principles of this new financial industry. In fact, our goal in the present article is to gives some answers to the following question. What are the main characteristics of Zakat and its advantages and what are the effects of this Islamic obligation on the economic cycle?

In line with this, our study begins by a brief description on of Islamic banking in which we present a definition of

Islamic banking and its principles and techniques of finance. The section 3 shall be ensured of a study about the main characteristics of the "Zakat". Thus, we determined, in a first party, the persons subject to the "Zakat", the type of wealth counts for the calculations of these alms and the rights holders of "Zakat". In a second part, we determined the conditions for the transfer of "Zakat" to another country. The study of the socio-economic benefits of "Zakat" presents our target in the fourth section. In fact, it emphasizes on the role of zakat in the protection of individuals and society economic crisis. Even more, it analysis the role of this charity as a tool to exceed the unemployment and poverty. Section 4 covers the effects of "Zakat" on economic phases, where we start with a brief presentation of the economic cycles in order to arrive later to determine the effects of zakat in the phase and its importance as being a stabilizer in economic cycles. Finally, section 7 concludes the main results of our study.

## 2. About Islamic Banking: A Brief Summary

### 2.1. Islamic Banks: Definitions

Islamic banking provides services consistently with the law of Islam. In all transactions the living and taking of interest is prohibited. Islam forbids Muslims from taking or giving interest (riba). Several Koranic verses condemn the application of Riba such as the verse 275 of the Sourah Al-Bakara *"Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein"*.

The definition of Islamic banking takes many forms: The definition of Islamic bank, as approved by the General Secretariat of the OIC, is specified in the following manner:

An Islamic bank is a financial institution whose status, rules and procedures expressly state its commitment to the principles of Islamic Shari'a and to the banning of the receipt and payment of interest on any of its operations. Islamic bankers do not expect to advance money and receive a predetermined sum on a fixed date in the future; under the Shari'a, the bedrock of the Islamic faith, they are instead responsible for ensuring that money is invested in viable projects, with reliable borrowers. If the project succeeds the banker shares in the profit, if it fails he suffers the losses.

- Islamic bank is owned by its shareholders, established to conduct banking and investment activities in accordance with the Islamic Shari'a and its own articles of association;
- An Islamic bank is a financial and banking organization collects, uses money to build up complementary Islamic society, and sets up justice distribution of the role of money in Islam. This organization does its financial work while avoiding dealing with Riba or interest because it's prohibited

in Islam, and avoiding any work breaking sharia' principles.

The number of Islamic bank is increasing gradually; it covers not only the Islamic countries, but also almost all of the world countries as shown in the following table.

The integration of Islamic financial transactions on the financial market is also reflected in the expansion of market size (measured by total assets in billions of dollars) more particularly during the last mortgage crisis. Indeed, the total assets of these banks have recorded a remarkable increase during the years 2006 and 2007 as shows the graph below.

## 2.2. Principles of Islamic Finance

### 2.2.1. Prohibition of Interest

The instruments based on interest are prohibited. In Islam, interest is considered to be unjust because the money is a specify goods that we cannot buy or sell. In addition, remuneration for the use of money is agreed in advance. As a consequence, all the risks lie with the borrower and not with the lender. This prohibition is strongly Stating as noted by Koran, verses 278 and 279 of Surat Al-bakara: *"O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers (278) and if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged (279)"*.

### 2.2.2. Condemnation of "gharar" and "Maysir"

The use of products that are based on uncertainty (gharar) and gambling (maysir) are prohibited. This is reflected into the rejection of conventional insurance products although the action of the speculation.

### 2.2.3 Conviction of Illegal Activities ("haram" sector)

Some unethical activities are impermissible in Islam such as armaments, pork, alcohol and cigarette film industry, wine. This prohibition is intended the individual and the social interest. Moreover, in all cases, Islamic finance is linked to the real economy. All financial transactions must be backed by real assets and tradable. This principle, combined with that of the prohibition of excessive uncertainty that such derivatives are prohibited.

These three prohibitions outlined above reflect the three negative principles of the Islamic finance, turning now to expose the other two positive.

### 2.2.4 Sharing in Losses and Profits

One party can not alone bear the entire risk associated with a transaction. So, the other party may not invoke the privilege of transferring all the risks on the contractor. The profitability is a corollary of risk and is the main justification. It is even the translation of the famous rule e «Al Ghonm Bel Ghorm». It is, in other words, you can not commit to a fixed return investment for example.

### 2.2.5 The Obligation of Payment of Alms "Zakat"

Islam has encouraged voluntary alms, acts of charity and set up the Waqf (trust) to bring all this society solidarity, compassion, generosity and even altruism and

thus arrive at equilibrium and social justice and thus to peace and security.

Then we will analyze in more detail this latter principle that translated the third pillar of Islam.

In his ethics encompassing, Islam is concerned also in the business behavior. He imposed the respect of certain basic principles (resulting among other Islamic principles of justice, equity, transparency and mutual consent of the contracting parties). These are the principles that underlie now called Islamic banking and insurance or more generally Islamic finance.

## 2.3. The Main Instruments of Islamic Finance

The variety of the fundamental principles of Islamic finance has led to the emergence of products and concepts that are specific to it.

one hand, there are financing instruments such as "Al Murabaha", "Al Salam", "Al-Istisnaa Al", "Al Ijara". On the other hand, the participatory instruments such as "Al Moudharaba" and "Al Musharaka".

### 2.3.1 The Financing Instruments

#### 2.3.1.1 «Al Mourabaha»

It results in the purchase of an asset by the creditor (the bank) with a known price for both parties on behalf of his client. Then, the creditor (the bank) sells the good to the client or through installment payments over a period not at a price agreed in advance between the parties which is higher than the purchase price. This Islamic financial product was very similar to a traditional debt contract with some divergence.

Indeed, Islamic banking becomes the beneficial owner of the underlying asset; the contract of Murabaha is actually backed by a real asset. Therefore, it is by no means a loan transaction, but a sale on credit (spot purchase and forward sale).

During this operation, the bank therefore supports the risks associated with the detention of the good subject of the contract. This constitutes the main justification for its margin. Moreover, in this process there is no explicit reference to an interest rate. The creditor is compensated by means of an increase in the purchase price of the good.

It should be noted that the amount of the profit margin does not change during the contract period: it is fixed in advance and does not change during the term of the financing.

As a financial instrument that is very flexible and easily adaptable, the "Mourabaha" is one of the most financial instruments used by Islamic financial institutions.

Traditionally used for trade finance, the "Mourabaha" is the basis for a wide variety of Islamic financial arrangements, ranging from housing finance to fund projects.

#### 2.3.1.2 «Al Ijara»

An operation of "Ijarah" is for the creditor (the bank) to lease good to a client. Under the contract, the lessee (the customer) can benefit from the possible repurchase. This financial instrument is very close in form and in spirit of a contract lease.

However, it is worth noting some differences, albeit in detail, but important:

- In case of delay in payment, it is not possible to provide for the payment of default interest, first, because the fixed penalty is equivalent to an interest rate. Also because the Muslim philosophy rejects any provision in a financial contract that penalizes a debtor in good faith already in trouble;
- The contract leasing offers the possible, if necessary, to reschedule the payments. However, According to Islamic law, the clauses in a contract are firm and final. Any changes in the contractual terms give rise to the completion of a new contract. In other words, the signing of a new contract;
- The payments, in an Ijara contract, cannot begin until the lessee has taken possession of the property, while a contract leasing classic, payments can start from the time when the lessor purchases the asset under underlying;
- In a conventional lease, the risk of destruction or loss of goods will be the responsibility of the lessor or the lessee on (usually it is the lessee). In a contract of "Ijarah" is only the lessor continues to be the responsibility of the property, except in cases of malice or negligence of the lessee;
- In case of loss of the underlying asset, some leasing contracts provide for the continuation of payments. This clause is totally forbidden in the context of Islamic finance: financial contract and underlying assets are inextricably linked, and the disappearance of the last automatically nullifies the first;
- Ijara contract is characterized by flexibility particularly useful in the case of project financing. This agreement opens the possibility of determining the amount of each payment but not before the expected date of delivery of the asset underlying;
- Unlike the case of conventional leasing company where may securitize the debt without lose ownership of the underlying good; the context of financing by "Ijarah" is different. Otherwise, in the contract of "Ijara" the debt and assets are inseparable; any securitization transaction must compulsorily bear both;
- In Ijara contract, the residual price must be zero to avoid uncertainty arising from the determination of an unknown future price of parts.

#### 2.3.1.3 «Al Salam»

Contract of "Al Salam" is a forward sale. It is a transaction where the payment is made in cash when delivery is made in the future. It is recognized that Islamic finance prohibits the sale of a non-existent because it involves the hazard ("gharar"). However, to facilitate some operations, particularly in agriculture, some exceptions have been granted.

The "Al-Salam"'s contract requires a detailed description of the good object of financing to avoid conflict between the contracting parties. This contract is also a solution for the financing of production inputs.

#### 2.3.1.4 «Al Istisnaa»

This financial contract allows a buyer to purchase the goods that he will deliver at term. Unlike the "Salam", in this type of contract, the price agreed in advance is paid gradually, throughout the manufacture of the good. The

concrete modalities of payment are determined by the terms of the agreement between the buyer and seller (in general it is the bank). This type of financing is especially used in real estate, shipbuilding and aerospace.

### 2.3.2 The Participative Instruments

#### 2.3.2.1 Al Moudharaba

This operation highlights a relationship between an investor ("Rab al-Mel") which provides capital (financial or otherwise) and an entrepreneur ("Moudharib") that provides expertise. We remark, therefore, that this financial structure is similar to the organization of the limited partnership in France. The responsibility for the management of the business rests entirely to the entrepreneur. At the end of the operation, after the investor has recovered its capital and operating expenses of the entrepreneur have been paid, the profits are shared between the two parties according to a distribution agreed in advance.

In case of loss, it is the investor assumes the entire. Nevertheless, the entrepreneur lost only his remuneration.

This last point makes the distinction between this Islamic financing instrument with company sponsorship.

A variant of the "Mudaraba", the "Mudaraba" twofold (Moudharaba two tiers) allows to Islamic banks to play an intermediary role similar to that conventional banks. In this structure, the bank simultaneously plays the role of an investor and entrepreneur. On the liability side, as "Moudharib" it manages deposits entrusted by its clients. The asset side, it puts funds collected available to other investors. The compensation from the borrower, in this type of contract financial, directly dependent on the performance of the investment project which encouraged it to better manage the funds entrusted. Sometimes the bank could be the funder "Rab al-Mel" and it is the customer who becomes "Moudharib". It's the most similar to the concept of venture capital.

#### 2.3.2.2 «Al Moucharakah»

"Al Moucharakah" is the analogy of "association". This operation puts together two partners in order to jointly invest in a project while sharing profits based on capital. In the event of a loss, it is supported by both parties in proportion to the capital invested.

The operation of «Al Moucharakah» follows different models. Islamic law does not detail all the terms of this transaction but only specifies the main principles. So there are various forms of *Al Moucharakah*': An interesting form of moucharakah is "Al Moucharakah" degressive (diminishing Musharakah). In this type of contract, the share of one of the partners in the association is gradually taken over by the other partners.

Specialists converge to say that "Al Moucharakah" is probably the most Islamic financial instrument adaptable to the basic tenets of Islam. While, this funding technique is, in reality, rarely used and if it is used, its application is limited essentially in investment projects on a small scale.

## 3. The Main Characteristics of the Zakat

Before starting in the presentation of these peculiarities, we will focus, first, on some characteristics of Islamic

finance which presents itself as the most important distinction to the conventional counterpart. Actually Islamic finance is qualified ethical finance as it relates to moral values in these various modes of financing. It excludes the financing of any project tainted by usury, alcohol, pork, arms trade, also completely prohibits speculation supplies staples. In this sense, money is used as a tool for wealth creation and growth which the fruits should reflect community solidarity and never as a commodity.

It is widely recognized that lending at interest is forbidden by all heavenly religions. However, Islam is the only religion which keeps the ban. The purpose of this prohibition is to protect the interests of the different contracting parties. In fact, experience shows that the application of loan interest has only improved the gap between poor social layer and the layer rich in the community. It should be noted that Islamic financial has developed a funding model compatible with the financing of investments in nature but not with fixed and predetermined interest rate. This ethic made that the different parties are winners. Of this principle follows the warning against the deterioration of the money's value and therefore the elimination of inflationary problems.

Even more, Islam condemns Gharar resulting in conventional finance by betting on the future. It aside all transactions that involve uncertainty and risk namely hazard game. As part of its activities, some sectors "haram" are excluded from the sphere of Islamic economics. It is illegal sectors (prohibited activities related to pork products, pornography and alcohol ...).

Islamic finance is linked to the real economy. In fact, it is based on a true innovative partnership. Contracting parties share risks, profits and losses. In this case, Islamic finance is often referred to as "participatory". It has implemented a system based on the sharing of Profit and Loss (3P). This system provides to combine the financial capital to human capital. The participation should be fixed in proportion and never a benefit when the contract is signed. As it happens, this new funding consistent with the "Shariah" is interpreted as a reassuring finance. Via the principle of sharing of profit and loss which occurs in the majority of Islamic financial transactions, individuals are more likely to succeed in their projects as it will combine with the other party in the financing of this project. This combination leads to a sharing of prospective profits and losses. This encourages people to invest in accordance with the principles of "Shariah". Ethics in Islamic finance is also manifested by the obedience of financial practices to a number of religious principles. Indeed, Islamic financing is based on respect for private prosperity and seeks the welfare of individuals.

Most important thing also, the special funding modalities in Islamic economics are revealed in the establishment of a legal alms "Zakat" and voluntary charity to the poor and needy. It is a type of financial obligation to the needy that all persons who have must pay it. The "Zakat" is made an instrument of control of the individual in his love for the possession of money and pent wealth. It is not as a tax intended to finance expenditure. The "Zakat" aims essentially to purify of money. Islam promotes the value of the remuneration of the charity and shows that it can in no way be a power

exercised by the rich on the poor for example they guide them in the use of this amount.

### 3.1. Presentation of Zakat

Praise is to **ALLAH** Lord of the Universe says in the Holy Quran, Sura of the Byzantines: "*So give the relative his right, as well as the needy and the traveler. That is best for those who desire the countenance of ALLAH, and it is they who will be the successful*". He added in the same Suat, Verse 39: "*And whatever you give for interest to increase within the wealth of people will not increase with ALLAH. But what you give in zakah, desiring the countenance of Allah - those are the multipliers*".

The "Zakat" is not only a divine purpose but it has several other purposes including:

*Spiritual purpose:* Stimulating the Muslim individual to get rid of the love of money and of these lower world goods, encourage them to share their goods to people in need and give what he likes. Zakat is the primary cause in the sense of cleansing recommend against greed and to become accustomed to the generosity.

*Social Purpose:* Payment of the "Zakat" promotes brotherhood, solidarity and peace between communities and eliminated so the hatred that the poor can have hatred in his heart against the rich miser.

*Economic purpose:* This obligation grows rich to exploit and invest their assets and participates in boosting the economy. Zakat is an effective tool to combat hoarding. In fact, goods not fructifies may considerably reduce by the Zakat's effect.

### 3.2. Persons Subject to the "Zakat"

[6] showed that, in the legislation, Zakat is an obligatory duty subject to a set of obligation conditions which show its validity. There is a minimum tax (Nissab) for each category of property subject to zakat. The Nissab must be calculated in accordance with certain criteria in advance. It is calculated after meeting the necessary requirements such as food, clothing, housing ... It is necessary that this amount does not decrease below the minimum tax for each good for one year hegira (354 days). For Zakat about gold and silver, the minimum taxable gold is 85 grams of gold, equivalent to about 1800 U.S. dollars in 2007 holding a price of \$ 600 per ounce of gold. Thus a person who kept a sum of at least \$ 1,800 for one year must pay Zakat. The amount is 2.5% of the amount saved. If the amount available becomes less than the minimum taxable in one year, it will be exempt from the "Zakat". However, when the amount of the savings exceeds a some of threshold called the "Nissab", it fits into the calculation of the next payment of alms. (For determine the current value of Nissab visit [www.24hgold.com](http://www.24hgold.com)). The Muslim is accountable and must fulfill them. In general, "Nissab" is given by pure 85 g or its equivalent in monetary value. In general, "Nissab" is given by pure 85g or its equivalent in monetary value. In this context, are subject to the obligation to pay the "Zakat" the category of persons who fulfill the following conditions:

- Being Muslim: In his speech about this obligation, **GOD** is interested by the Islamic community;
- Be adult: who has reached puberty and legally capable; It should be noted that:

- Zakat is obligatory on the taxable property of the child as well as those of adults, but it is her guardian to take the child's property;
- Zakat is obligatory on the wealth of the orphan and the incapacitated Muslim adult if they are the sole owners of the property.
- Have the Nissab: means the detention more wealth than Nissab level (threshold) for a minimum period of one year lunar or solar.

We must indicate that the Qur'an does not distinguish gender for those who have to pay the "Zakat". All Muslim must comply with this requirement when the "Nissab" is reached.

### 3.3. The Types of Wealth Counts for the Calculation of "Zakat"

It should be noted that the taxes paid to the State can not in any circumstances be regarded as "Zakat". Indeed, scholars of the Standing Committee said: "the tax imposed on a building does not replace the Zakat. Similarly, the payment of taxes does not relieve the owner of the payment of "Zakat" on the income from the rental of the building, if it reaches the minimum taxable. (*Fatwa of the Standing Committee, 9/339*). For example, Zakat Al Maal is paid on goods likely to grow or likely to increase. All goods unlikely to increase are exempt from taxation, as houses and artisans' tools.

In this context, Sheikh Ibn Baz (Abd al-Aziz ibn Abd Allah ibn Baaz known as Ibn Baz, born in 1912 and died in 1999, is a (Salafist) Saudi. He is the Grand Mufti of Saudi Arabia from 1993 until his death in 1999. He served as Chairman of the Board of Ulema of Saudi Arabia until his death) underlines: "Printers and factory owners and others must pay Zakat in the property for sale. As for goods not for sale, they should not be subject to Zakat. This is the case of vehicles, carpets, utensils for personal use". This opinion is based on the hadeeth narrated by Abu Dawood with a good isnaad going back to Ibn Samura Jundub who said: "The Messenger of **GOD** (PBSL) gave us the order to collect Zakat from what we destine for sale". Extract of the *Compendium of Fatwas Sheikh Ibn Baz, 14/186*.

In the following, we will list the property due to the El-Maal's Zakat:

- The gold and silver, including ornaments and jewelry containing gold and / or silver;
- The money kept at home or in bank accounts;
- Equities and units acquired directly or through investment funds;
- The money lent to others if the lender believes it can recover in the same year;
- Economic actions in market values and exchange;
- Agricultural products;
- Herds of animals or details such as cows, oxen, goats, sheep and camels;
- Mining products;
- Pensions;
- Property acquired for investment.

### 3.4. The Beneficiaries of Zakat

In determination of social classes that can benefit from the "Zakat", Islam identifies certain categories of

individuals who are entitled to this charity. Indeed, it is not permissible to give "Zakat" only to people's ad-hoc who has some characteristics determined religiously. In this sense, God said: "*Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise*". (Surat At-Tawbah, verse 60). This verse determines eight categories of persons entitled to the "Zakah". These categories have a common point that they have a real need. In fact, it is the poorest class of society. In addition, Salaf masses, the four "imam" and "Al-dabirnya" converged in the restriction of "Zakah" in those eight categories. In the category "in the path of Allah" payment of the "Zakah" is not absolute. For example, it is forbidden to pay "Zakah" in the printer of Islamic books and other similar activities. These kinds of activities have their own sources of funding that comes as a gift out of the sum of "Zakah. However, this charity is an obligation. Therefore, it is necessary for anyone who supports the payment of "Zakah" to know the classes eligible to this charity and the characteristics that determine them. He must take into account that it is on the brink of hell because he is a curator and a great responsibility and is required to fear ALLAH. He must remove from the love of money and wealth. In fact, many agents take the responsibility of collecting the amount of Zakah, however they deduct some money for them and they justify this by some corrupt interpretations. Some of them even collect tens of thousands of the amount of "Zakah". They keep them in a share of this amount and they justify this act by "any Zakah in your hands, take ¼ as counterparty of its business". So no one can handle in this case and can not in any way exploit these erroneous "Fatwas" in the analysis of what is condemned by God. The engagement in the case of "Zakat" is a heavy occupation. Moreover, our Prophet Muhammad, blessings and salvation of God on him, leaves the prayer for to give alms "Sadakats" to its owners. This is in the case of donations and alms, what about an obligatory case such as "Zakat". Referring to the verse above, we can determine the restrictive eight categories of persons who may receive Zakat. They are as listed:

- The poor: They are those who have no income and earning the means of their subsistence from day to day. They are the poor people who can't find those who provide their basic needs.

- The need: There are those who may have an income but is below the minimum wage. The Messenger of God, the Almighty, says: "The needy is not the one that goes around people and is repelled by one or two bites, or one or two dates, but the needy is one that is no fill to fill. We do not notice it enough to give charity and he does not ask people. " This hadith is reported by Al-Bukhârî and Muslim.

- Employees of the Zakah (collectors): These are the institutions, social and humanitarian purposes, which are empowered to manage both the collection of Zakah and implementation of assistance programs for people in emergency situations (refugees, displaced persons, victims) and for the people who need sustainable assistance to rebuild their lives (debt, needy, poor).

- The «*moalafato quolobihime*» : translated by Muslim exegetes by: "Those whose hearts are to be won" These are indeed supporters of Islam known by their positions not hostile to Islam. These are indeed supporters of Islam known by their positions not hostile to this religion. Give them a part of Zakat is to empower them to continue to support the cause of Islam.

- To release the captives: This verse refers to the captives of war. It also allows addressing new forms of slavery.

- Relieve the debt proven: There are three categories of insolvent persons can receive Zakat.

- Those who contract a debt to mount an economic project;

- Those who contract a debt with the intent to assist a person in need;

- Those who contract a debt and then die without settle, and the property bequeathed is insufficient to resolve.

- In the path of GOD: This category includes any action on improving the lives of Muslims, for example the satisfaction of their needs for services, health, education, etc..

- Travelers (distressed): Scholars agree that the traveler far from home can benefit from the charity by giving him enough support himself during his trip.

A side to this eight categories beneficiary of this required donation, we will add other features.

### 3.5. The transfer of Zakat to another Region or another Country

Zakat ensures, in this sense, social solidarity for the different classes of society to get closer, to love and help each other. In this context, the Prophet pointed to Muadh ibn Jabal recipients of Zakat among the inhabitants of Yemen "Informed the rich that should pay Zakah on behalf of their poor". Based on the speech of Muhamed, and more particularly on the experience "poor" jurists understood that the "Zakat" should be distributed to the poor inhabitants of the same country. However, "Muadh" while complying with the order of the Prophet, came with a surplus that was distributed to the poor emigrants Medina, under the guidance of the Prophet. This act led so the jurists to authorize the transfer of the surplus of "Zakah" from one region to another. Nevertheless, this transfer is not obvious. In fact, it is permitted if some conditions are checked.

- When the person subject to Zakah deserving a close relative Zakat but lives in another country, because it is there to maintain a family relationship.

- When the inhabitants of a region are poorer than where Zakat is levied.

- When it comes to natural disasters, conflict or war in a country.

- Finally, if in an area not found any person belonging to one of eight categories listed above, we transfer the Zakat for the region closest to be distributed to its poor inhabitants.

### 3.6. Giving Zakah to Dependents

It is unacceptable to give Zakat to people who are directly dependent as ascendants (parents, grandparents), descendants (children, grandchildren) and wife. However, it is permissible to give Zakat to her poor brothers and

sisters unless they are dependent as little orphaned siblings sisters or divorced. It should be noted that the right to them is not within 2.5% of the Zakah but in 97.5% remaining.

### 3.7. Giving Zakat to a Closer

It is permissible to give Zakat to a relative (cousin, sister, brother, uncle or other relative) provided that is part of the Zakat beneficiaries and that it is not in the responsibility of the donor. More than it is an obligation; this charity can be interpreted both as a religious obligation and as a consolidation of kinship. In this context, our Prophet (PSDL) said: "The giving alms to the poor is a simple charity and to nearby, it has two: a respect for kinship and alms".

## 4. The Socio-Economic Benefits of "Zakat"

[7] agree that Zakat institutions as a non-profit financial organization has several direct impacts on the economic system and is considered as a complement to the financial institutions and as part of a comprehensive Islamic economic system. He indicates that Sadakats and Zakat do not reduce the property. However, Zakat promotes economic revitalization. It helps, in fact, the entered of money in economic activity. Indeed, money hoards penalized by the "Zakat". It is gradually reduced year after year until it reaches the minimum level (Nisab). So the Muslim society will lose a lot of interest when money hoards is not invested. Therefore, he has no interest for Muslim society to keep its monies outside the scope of economic activity. One who gives well for ALLAH will be replaced as it shows in the Quran "*Verily my Lord enlarges and restricts the Sustenance to such of His servants as He pleases: and nothing do ye spend in the least (in His cause) but He replaces it: for He is the Best of those who grant Sustenance*" *Sabaà / 39*.

Islamic law provides for the payment of Zakat as soon as the amount of savings of Muslim above a certain threshold called the "nissab." In his study "The objectives of Zakat in the economic life of the individual", Mesdour Fares, 2010, lists the benefits of this debt in various levels that will present in the following:

### 4.1. Zakat Protects the Individual and Society of Economic Crises that Result in:

- Failure: Zakat comes through from the persons indebted. In this sense, the "Zakat" can be for investors that their financial situation through funding problems. So this charity is manifested as a way to help these investors overcome some financial gaps. Thus, in this case, the "Zakat" can save the individual to avoid bankruptcy and to benefit from an economic recovery aims.

- Zakat is a form of insurance against the risks of investing: for investors, it provides security and stimulates the growth of investments. The individual benefits and the company will also benefit. Therefore, the "Zakat" is a financial reassuring tool that stimulates investors to enter into financing projects in a more stable and less risky. It therefore supports economic dynamics and opens more

opportunities and investment opportunities. In the following, we will develop this last point with more details.

## 4.2. Zakat and the Fight against Unemployment

The previous studies for instance [8] and [9] assert that Zakah on employment income significantly reduce poverty since there are income earners earning salaries and other remunerations in multiples of what the farmers, traders, and other Zakah payers are earning per annum. Income levels are however said to significantly affect Zakah payment: the higher the income, the higher the probability of an individual to pay Zakah. The collection and distribution of the amount of "Zakat" plays a determining role in reducing unemployment through grants that provide needy investors. In fact, the distribution of this amount to the class allows assists him in financing their needs as well as financing their newly created projects. Also, the benefits of "Zakat", in this area, can be exposed in the following points:

- Zakat is collected by official bodies; this allows individuals and members of these organizations to ensure the preservation of jobs. Zakat can support on consumer demand which ensures the economic viability of business enterprises.
- The "Zakat" contributes, as well, to the creation of new jobs through investment in projects created by the poor and funded the "Zakat" or created by organizations "Zakat" in for the poor and needy.
- More recovery of "Zakat" is important, the more you will participate in projects which decrease the unemployment rate.

## 4.3. Zakat is a Tool to Overcome the Problems of Poverty

It is a self-help measure adopted with full religious backing to sustain those poor and destitute who are unable to help themselves so as to improve misery and poverty from Muslim society

The amount collected by the "Zakat" may enter into financing the mass poverty which includes the following areas:

- Feeding: it can provide the goods of nutrition and food production tools order to ensure the necessary nutrition
- Health: Zakat may be intended for the financing of health problems. You can reserve an amount to provide medicines and antibiotics for diseases, provide the necessary care, create pharmacy services for the poor and needy and ensure consumables water and irrigation via the creation of new wells in the poorest villages in society.
- Education: Zakat can finance the establishment of schools, research centers, and fixed and mobile libraries and funding of higher education bourses. Thus, it encourages the development of society through participation in reducing the literacy rate.

It is noteworthy in this context study that Zakat's organizations must ensure to finance projects that will support better the lives of poor people. Those projects are more profitable and give good results in the fight against unemployment and poverty. In this view [8] show that

Zakah generally alleviates poverty as it transfers wealth from those with lower marginal propensity to consume to those with higher marginal propensity to consume.

## 5. The "Zakat" Effects on Economic Phases

It is recognized that the capitalist economy is characterized by cycles. They are manifested by expansion and depression phases in its historical evolution. The objective of economists well as the political is to reduce the magnitudes of these fluctuations in order to bring the economies to grow along an equilibrium path. The search for this stability is due to the potential consequences at the social level of an abrupt reversal of the trend of the expansion towards depression or following a critical phase of inflation. In this sense, economists emphasize some means and procedures to mitigate fluctuations and reduce the size.

The Islamic economy does not escape to these objectives. Taking into account the characteristics of the "Zakat" in the economic cycle, you can discover that it is able to boost expansion, contribute to ending a depression and reduce the duration of the depression [7].

### 5.1. Economic Cycles

The economic cycle is a design that determines the fluctuations in economic activity by breaking it down into a succession of clearly distinguishable phases that are repeated over time in an orderly way. It is defined by four phases that result in an economic cycle by a phase of expansion, crisis, recession and finally a recovery phase which leads to the expansion phase of the next cycle. It is interpreted in the developed economic by alternating phases of expansion and concentration steps of various origins. [9] associated them to the innovation cycle. He stressed that the phases are born with the innovation cycle. At the same time, markets are expanding; investment grows as well as employment. The expansion phase is characterized by an increase in the product that will be beneficial for the well being. Gradually, the innovation will lose its intensity and its importance. Therefore, the economic effects will decline. So the economy is entering in period of stagnation with lower investment and a decline in employment. This situation will continue until a new innovation cluster takes birth and thus the emergence of a new economic cycle.

[10] presented an explanation for cycles with reference to crises of over-accumulation. It shows that every entrepreneur seeks to modernize its equipment in target storage to cope with competition. However, there comes a period when the capital is devalued and stops to exercise its function. It enters, in fact, in a period of crisis followed by phases of depression. Marx indicates that the elements from the crisis at the same time cause a recovery. Other theories cycle develop highlighting the capital cycle itself. This latter trigger a mechanism that propagates formed an economic cycle. In our time, the economic environment changes and these phenomena appear in a different context which was exercised in the XIX or early XX century. No matter the differences in capitalist economies in their interpretation of the economic cycle, their primary

goal is to bring the economy in their equilibrium phases and reduce unemployment. Under Islamic economics, taking into account the effects of the "Zakat", they provide opportunities for adaptation that can avoid major disruptions and ensure economic stability. To identify these effects, it is essential to study the economic cycle, in the context of Islamic economics, from the beginning for to see how the "Zakat" will intervene to drive this cycle. Starting point of this procedure is to find form economic rationality characterizing holders of assets in Islamic economics. Indeed, if the latter remain inactive they are necessarily subject to the payment of "Zakat". So they are in order to invest the assets [11]. Thus, employment believes as production. The onset of this process causes multiplier effects result of entering the market other assets holders who wish to invest as the economy recovers. So, in this context, we notice a first effect of "Zakat" which takes here initiator partial role of a phenomenon of expansion.

## 5.2. The Effects of "Zakat" in Investment

This mandatory donation has also an effect on the act of investment. As a low-income category, the poor and the needy are, in general, the beneficiaries of the "Zakat". This results in increased consumption of this category. This encourages increased demand that motivates investors to produce more and then it stimulates investment. So the production and employment reinforce which leads to a new distribution of income. Therefore the base of the "Zakat" expands. Thus, we arrive at this level, a double effect of "Zakat": One hand, as we have already explained the movement of business improves overall wealth which increases the product of "Zakat". On the other hand, the beneficiaries of the charity can, by improving their financial situation, become eligible for payment of the "Zakat" when their income exceeds the "Nisab".

Order to better identify these issues, we will present later a simplified formalization.

We note  $Y$ : income and  $z$ : the rate of "Zakat"

$\rightarrow zY$  is therefore the part of the income dedicated to the "Zakat". It is

has spent part by the poor class party. We deduced, therefore, the overall formula below:

$$C = C_0 + cY + zY \text{ with:}$$

$C$ : Total Consumption

$C_0$ : the incompressible consumption (it is feasible consumption even if the income is zero. It can also be in the form of a credit).

$c$ : the marginal propensity to consume ( $c = \Delta C / \Delta R$  with  $\Delta C$  increased consumption and  $\Delta R$  the act of income).

$z$ : the rate of "Zakat"

Referring to the identity of the income for a closed economy, we have:

$$Y = C + I$$

$$Y = C_0 + cY \rightarrow Y = (C_0 + I) / (1 - c - z) = zY + I$$

So, the investment multiplier is:  $dY / dI = 1 / (1 - c - z)$

It is clear that in the last expression, it appears the rate of "Zakat". However, it is difficult to determine its effects. To do so, we will translate it into numbers. Such that  $c = 70\%$  and  $z = 2\%$ , two cases are possible.

In the absence of "Zakat"

$dY / dI = 1 / (1 - 0,7) = 3,33 = 333\%$ : an increased of the investment by 100 units causes an increase in income of 333 units.

In the presence of "Zakat"

The multiplier of the investment is estimated at 3.57: An increase in investment by 100 units causes an increase in income of 357 units.

Thus, in comparing the two cases, we note that although the second case (in the presence of "Zakat") is more profitable.

## 5.3. The Effects of "Zakat" on Employment

Through its appearance that manifests, within the framework of the investment, can be deduced implicitly its effects on employment due to the relationship between employment and investment. We know that the relation of production means the presence of capital stock (in the broad sense of the term) and labor [11]. The author stresses points out in his study that "Zakat" occurs at the formation of the capital stock. He explains this deducting by the effects of "Zakat" in investment. Indeed, these effects develop so that the stock increases by associating with a higher volume of employment. The graph below shows these effects.

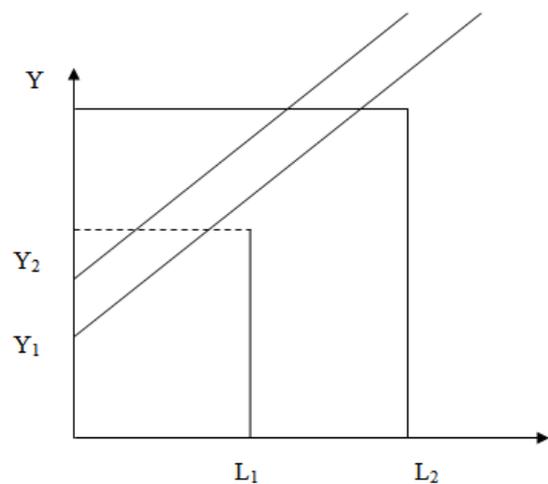


Figure 1. the effects of "Zakat" on Employment

Source: Abdeljaba Bessais (1997) «Impact de la Zakat sur l'économie», 1997

With:  $L$ : Employment;

$Y$ : The product;

$k$ : Capital stock.

We also note that the increase in capital stock leads to an increase in employment implemented thus leading to the birth of a higher product. At this level, we analyzed the role of "Zakat" only in the expansion phase of the cycle. Its effects are also remarkable in the depression phase. We note in this context that the conventional cycle theory proposes a number of mechanisms to correct a depressed activity. Among these mechanisms those Keynesian seems most favorable for economic recovery as a result of a policy of public spending. This policy aims to increase aggregate demand result of an alignment of wages to productivity. As it is widely recognized, such a policy is beneficial because it allowed achieving high growth in Western countries after the Second World War. In the context of Islamic economics, such a policy is

envisaged. In addition, the intervention of the "Zakat" impacts the stimulation and strengthening of this policy. Moreover, in a situation characterized by a low level of investment, the base of the "Zakat" is broader because it is based on a large volume of assets not used productively. So the product of "Zakat" will be higher. The broadening of the latter base increases income (money) the poor category (the beneficiaries of the "Zakat"). This increase together with lower prices as a result of depression stimulates the purchase of this category.

recovery of investment. So the "Zakat" plays a role in stimulating the production which opens again the chance for the entry of new investors due to increased demand. In fact, Zakat funds are recognized as an important source of finance for Islamic countries besides tax funds [12]. Therefore, it might help generate the prosperous society through redistribution of income between the rich and the poor and amplify the individual's purchasing power parity.

Another scenario that shows the effects of "Zakat" on the fight against unemployment can be mentioned. In fact, some poor and needy prefer to have work tools instead of the money that will be consumed. These tools provide him a sustainable source of funding providing him a job. The increase in this category of person gives, without doubt, a good result in the fight against unemployment. So the correct application of the principle of payment of "Zakat" manifests itself as one of the best tools in the fight against unemployment. From this analysis, we come to understand the role of "Zakat" in the phases of the cycle. This invites us to study the mechanisms of its action. In fact, in addition these roles, through the flexibility of its forms of payment, this charity causes a greater economic stability in the phases of the cycle.

#### **5.4. The "Zakat" as a Stabilizer in Economic Cycles**

[13] showed that economic cycles, in developed countries, are given in their economic developments. The phases of these cycles result in a high amplitude and a strong expansion of inflation as well as long-term depression. The situation, in the context of Islamic economics, is different through the nature and terms of payment of the "Zakat". Indeed, this charity can reduce high amplitude and reduce also the duration of the depression. It may be disbursed in cash, in kind, in the form of consumer goods, equipment..... This characteristic enhances the impact of this binding gift in cycles. Forming the ratio (consumption good/ capital good) while changing its structure as the case, we can change the expansion phases to prolong the duration and control the inflation. During the depression phase, the choice of means aim to reduce period. During the expansion phase, Investment, as we have already shown increases rapidly by stimulating demand with profit outlook it collects. In general, this situation is established quickly and generates, consequently, an inflation problem. In the present case, it is recommended, on one side, to reduce the ratio (consumption good/ capital good) by promoting the weight to goods in payment of "Zakat". From the other side, it is permissible to pay "Zakat" more in nature than in money. In fact, the actual goods may be, in general, stocked and subsequently delayed in their consumption. However, the recipe money, in the most cases turns into

consumption which improves the expansionary boom. In this situation, moderating consumption, expansion forgets his explosive appearance which characterizes the developed economy. During the depression phase, the investment is reduced and the employments decline whatsoever due to a low demand or because of a reduction in the investment to its desired level. Order to remedy this situation; it is useful to increase the ratio (consumption good/ capital good) by strengthening further the payment of "Zakat" in the form of consumer goods. All the more, it is recommended to pay the obligatory charity in the form of money. In both cases, the consumption of the underprivileged classes, who is entitled to "Zakat" is improving. In this case, entrepreneurial activity is stimulated with a pessimistic forecast to invest in the production of consumer goods in large quantity. All the more, such a process is advantageous because of the beneficial effects to expect enjoying a revival of activity. We can deduce, therefore, that the "Zakat", in its framework, characterized by a variety in terms of its distribution and given its volume has caused a large payment can be an instrument to intervene in the cycle phases. This intervention affects the course of these cycles moderating the magnitude of the expansion phase or decreasing the duration of the phase of regression. At that time, the dominant economies seek to revise their economies in order to ensure stability and maintain a political, social and economic equilibrium; Islamic economics has a broad operating lever represented by the "Zakat". The involvement of the latter in the different phases of the economic cycle brings favorable elements for the resumption of activities, to maintain the growth and also to stabilize the course of the cycle in its phases (extension or back).

In this case, [14] recommends that paying zakat will give an excellent impact on several economic dimensions, for example aggregate consumption, savings and investment, aggregate supply of labour and capital, poverty reduction and economic growth.

## **6. Conclusion**

By way of conclusion, our study identifies the particularities of Islamic banks. This specificity is reflected in its principles and the methods of financing that escape all the transactions which are the target of a rate of interest (Riba).

Referring to the Islamic law (Qur'an and Sunnah), Islamic economics has developed a financial system that has its own standards and rules of conduct. Moreover, the Islamic economic doctrine aims to develop a degree of compatibility between the individual interest and social interests. In addition, unlike other economic doctrines, it is based on credibility and reliability in these financing transactions and seeks to involve different social classes in the investment procedure. Especially, it has, as an objective, the establishment of social justice and balance between the different communities. This equilibrium is achieved via certain principles such as the principle of payment of "zakat".

As it happens, our study leads us to infer the crucial role of "Zakat" in the Islamic society. It is involved in Islamic economics as a remedy in relieving social

problems. In fact, the application of the principle of "Zakat" allows the decentralization of the wealth in the most favorable classes. Thus, its role is to ensure a degree of social justice by supporting the necessary corrections to restore the socio-economic balance of the Islamic community. The intervention of "Zakat" helps mitigate the problems of unemployment [15]. This mitigation is a major care for modern states. The "Zakat" allows increasing the revenue of the unfavorable category which stimulates their demand. This demand encourages investors to increase their production. Thus, it stimulates in turn the act of investment and opens opportunities for new entrepreneurs. So "Zakat" is seen as a stimulator for employment [16]. Even more crucial, this charity participates in the eradication of poverty. In this sense, "Zakat" is defined as the right of the poor in the rich. Certainly, it aims to cover the basic needs of people living below the threshold of fluency. The importance of "Zakat" is also reflected in its role as a stabilizer in economic cycles. It can weaken the high amplitudes and decrease the duration of the depression. There are several methods of payment of "Zakat". It can be paid in cash or in kind. According to the economic phase, expanding or declining, we will reduce or increase the ratio (Consumer goods / capital goods).

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