

## Standard of Disciplining Zakat Organization's Investments and Suggesting a Proposal for Investment

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### ABSTRACT

*Zakat organizations should be highly organized and disciplined, because their role is an intermediary in managing Zakat funds and protecting the rights of Zakat deserving beneficiaries. They are not partners in ownership of those funds, and have to be honest in their dealings with Zakat deserving beneficiaries. This makes the nature of their work highly sensitive. Trust and good reputation are their main capital which can ensure their continuity and success. So, if they lose their reputation, the confidence of Zakat payers will decrease or eliminate. The same result would appear and may expose these organizations to accountability if they invest surplus of the Zakat funds without any control or never invest these funds and leave them exposed to the risk of inflation. Hence, they are required to invest Zakat funds with proper controls.*

**Keywords:** Zakat, Zakat Organizations, Zakat Deserving Beneficiaries, Zakat Payers

### INTRODUCTION

Islam is the only religion that was enacted until Allah will inherit the earth and what is there on it, and this religion with its pillars and principles urges us to worship Allah. Religion of Islam guides systematically in every walk of life. It fosters community development and cooperation rather than isolation. This goal is achieved with an essential pillar of Islam, which is Zakat. So, the diversity of methods of collecting and distributing Zakat may contradict with the Islamic principles that call for unity represented by the command of Allah almighty, as mentioned in Holy Qur'an:

(وَاعْتَصِمُوا بِحَبْلِ اللَّهِ جَمِيعًا وَلَا تَفَرَّقُوا) [آل عمران: ١٠٣]

(And hold firmly to the rope of Allah and do not be divided) [Ali 'Imran: 103]

It also contradicts with the actual and verbal Sunnah of the Prophet (P), and also contradicts with the actions of Rashidun Caliphs and some of the companions of the Prophet (P) at organizing this great pillar.

Zakat organizations through divine laws were put as a tool to achieve the

hoped-for reality - social and economic - sought by current traditional organizations that stand helpless in the light of their civilizational development versus the prosperity and growth that were reached by some previous Islamic eras and what was approved by historical events, which may have been achieved as a result of their adoption to the Zakat's systematic approach.

Zakat prospers and achieves its goals by supporting the whole Islamic community, as it does not stop at only the limits of worshipping Allah or achieving personal benefits, but it also reaches over the whole society. In this regard, it is a financial worship, and its goals are both private and public at the same time. Hence, this requires organizing it systematically by the society.

Some of the Zakat organizations are seeking to invest their surplus of Zakat funds for the purpose of development. However, these funds are public funds as they belong to specific items for Zakat deserving beneficiaries. Therefore, they should be carefully invested by the organization. This requires issuing special standards to discipline and control the

investment procedures and find feasible proposals.

### LITERATURE REVIEW

Oang (2011) details in the matter of investing Zakat funds after paying Zakat to Zakat deserving beneficiaries. He concentrates in his study on the experience of Baitulmal in Malaysia. He indicates that there is a need to establish a team of experts whose job is to supervise the investments of Zakat funds in Zakat organizations.

Al-Fawzan (2012) elaborates the ruling on investing Zakat funds, and puts some light on principles of investing Zakat funds. Aichouche and Sebti (2019) display in their study the experiment of Sudanese Zakat Chamber in investing Zakat funds. The study mentions that this experiment is one of the best experiments in Islamic Arabic countries. Also, Sanogo and Qamar Al-deen (2019) provide details on the matter of investing Zakat funds after paying Zakat to Zakat deserving beneficiaries. They use Selangor Zakat Foundation (Malaysia) as a sample to apply investing.

Like many scholars, this study also studies the ruling of investing Zakat funds by Zakat organization. But, unlike other studies which take case examples of investing Zakat funds, this study illustrates and details a proposal for investing while weighing the advantages and disadvantages of such a proposal.

### RESEARCH METHODOLOGY

The study adopted the descriptive analytical approach to research in investigating the matter of ruling of investing Zakat funds, and in the matter of suggesting a proposal for an investment, and also by depending on the life experiences of the researcher in this field.

### RULING OF INVESTING ZAKAT FUNDS BY ZAKAT ORGANIZATIONS

Investing Zakat funds by Imam or his deputy (Zakat organization) after collecting funds is one of the modern matters that was studied by contemporary scholars, who has been divided into two parties, as Dr. Al-Ghofaily detailed it, as follows:

1. Opponents for Investing: This view was chosen by the Islamic Fiqh Council of the Muslim World League at its fifteenth session, the Islamic Fiqh Academy in India at its thirteenth symposium, the Permanent Committee for Islamic Research and Ifta in Saudi Arabia, and some contemporary scholars such as Sheikh Muhammad bin al-Uthaymeen.
2. Supporters for Investing: This view was chosen by the Islamic Fiqh Academy of the Organization of the Islamic Conference at its third session, the third symposium on contemporary Zakat issues, Kuwait Finance House, the Shariah Board of the Zakat House in Kuwait, and many contemporary scholars such as Sheikh Mustafa Al-Zarqa, Dr. Wahba Al-Zuhaili and Dr. Yusuf Al-Qaradawi, in addition to other contemporaries.

Dr. Al-Ghofaily contributed in studying the two views and also provided details of arguments and discussions. He suggests that it is obligatory to initiate the payment of Zakat funds to the Zakat deserving beneficiaries, whether from the owner (Zakat payers) or from the Imam or his deputy, and this does not contradict the permissibility of investing some of the funds for the benefit of Zakat deserving beneficiaries if the Imam deems that is necessary to do. But, of course, this can be done only within Islamic rules to ensure discipline and control while investing for achieving benefits or preventing harms if any (Al-Ghofaily, 2009).

One argument which guides the supporters' view is the action of the

Prophet (P) with Zakat funds is a narration. Al-Bukhari singled out in a chapter in his book (Ṣaḥīḥ al-Bukhārī) which addressed it by: The use of Zakat camels and its milk for the Wayfarer, in which it was narrated that Anas said:

(أَنَّ نَاسًا مِنْ عُرَيْبَةَ اجْتَوَوْا [قَدِيمُوا] الْمَدِينَةَ، فَرَخَّصَ لَهُمْ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ أَنْ يَأْتُوا إِبِلَ الصَّدَقَةِ فَيَشْرَبُوا مِنْ أَلْبَانِهَا وَأَبْوَالِهَا)

(Some people from 'Uraina tribe came to Medina and its climate did not suit them, so Allah's Apostle (p.b.u.h) allowed them to go to the herd of camels (given as Zakat) and they drank their milk and urine (as medicine)) (Al-Bukhari, 2002).

Ibn Hajar commented on this hadith, saying: Al-Bukhari deduced from the hadith the permissibility of using Zakat funds in other benefits without owning it, and that is obvious through drinking the milk of the camels (Ibn Hajar).

Also, the supporters for investing Zakat funds by Zakat organizations deduced from the hadith that the Prophet (P) and the Rashidun Caliphs were investing Zakat funds of camels, cows and sheep, as these animals had special places for conservation, grazing, breeding and offspring, and they also had shepherds who took care of them (Al-Ghofaily, 2009).

#### REGULATIONS FOR INVESTING ZAKAT FUNDS BY ZAKAT ORGANIZATIONS

Ruling of investing Zakat funds by supporters was not at all without qualification and conditions. They stipulated some disciplinary criteria to control investing. Dr. Al-Fawzan detailed some of the guidelines that should be followed while investing Zakat funds by the Imam or his deputy (Zakat organization). These stipulations could be summarized as follows (Al-Fawzan, 2012):

1. Taking care of the needs of Zakat deserving beneficiaries. There should be no urgent disbursements required by the Zakat deserving beneficiaries while deciding to invest the surplus funds. So, it is necessary firstly to meet the needs of Zakat deserving beneficiaries before investing any Zakat funds. Considering the needs of Zakat deserving beneficiaries are: the original and basic needs of the immediate necessity that cannot be delayed, such as food and clothing for the poor and the needy. So the funds should be disbursed immediately to meet those needs, while the funds that are set for future disbursement can be invested according to the scheduled disbursement.
2. Investing Zakat funds should achieve real benefits for Zakat deserving beneficiaries. Hence, the probability of achieving benefits must be greater than the probability of loss, and this should be verified by preparing economic feasibility studies prior to making investments.
3. Taking procedures and precautions to ensure that the invested funds and their profits stand for only the benefits of Zakat deserving beneficiaries.
4. Ability to liquidate the invested assets into money should be high if the needs of Zakat deserving beneficiaries suddenly require that in emergency or disasters.
5. The investment decision should be taken by a person who has a general mandate as the guardian or a deputy.
6. Supervising and managing the investment of Zakat funds by those who have good experience, honesty and integrity in order to ensure that those responsible for investing Zakat funds are not betrayed or embezzled.
7. Investing Zakat funds considering the provisions related to Zakat and the conditions of Zakat obligation, and with regard to the terms and conditions of the funds on which

Zakat are due. In addition, verifying the need of Zakat deserving beneficiaries is important while investing.

8. Investment should not be made in forbidden areas from the point of view of Islam. Such as investing in banks that deal with usury or companies that sell goods which do not comply with Islamic principles, such as alcohol.

Also, the researcher adds other conditions which may be considered while investing Zakat funds by Zakat organization. The most important of which are as follows:

1. Zakat organization should be the only supervisor for the investment, which gives it decision-making powers after preparing the necessary studies.
2. Subordinating the investment and its benefits should be to Zakat organization, that gives it powers and advantages, such as exemptions from taxes, and fees granted by the State to Zakat organization to protect its public funds and thus reduce investment expenses which contributes to increase investment profits as well as achieving the state's goals in reducing burden on the poor categories.
3. Considering the investment as an independent unit. So, all expenses incurred as a result of the investment must be deducted from the total investment revenues without affecting the revenues and expenses of Zakat organization. It is important to treat the investment separately from the Zakat organization.
4. Determining the funds that are necessary for the investment through planning and budgeting of Zakat organization in relation to its financial cash flows. This is important in order to know the quantity of the surplus funds and their available periods.
5. Investing funds in short terms and achieving quick returns helps to recover the capital of the investment as quickly as possible and avoid investment risks in long terms.

6. Other supporting parties should be available in order to cover the losses, if they occur.

7. Trying to invest Zakat funds for other purposes, such as achieving social or developmental goals by helping the Zakat deserving beneficiaries in getting education and health facilities. So, the investment should not be limited to the development of Zakat funds only.

8. Goals of the investment should conform with the public purposes of the state, without conflicting with interest of other parties.

The prime purpose of Zakat funds is to distribute them directly to Zakat deserving beneficiaries as soon as they are collected without any delay, and this is obvious by the action of the Prophet (P) and his Rashidun caliphs, and this is as what was decided by the International Islamic Fiqh Academy. But, the Academy has allowed delaying the disbursement, in order to achieve the purposes, or to wait for a poor relative, or to pay it periodically to meet the continuing living needs of the poor (IIFA, 2007).

It may also not be possible for some organizations to disburse Zakat funds immediately in some cases, because requests to receive Zakat funds submitted by Zakat deserving beneficiaries need careful scrutiny to find out the most eligible ones. These procedures may take a long time, as it is not feasible to distribute a lot of Zakat funds all at once, especially when these funds can be misallocated if care is not exercised (Al-Ghofaily, 2009). Furthermore, funds may suffer from the risks of inflation. For these and other reasons identified by contemporary scholars, investing Zakat funds was permitted to achieve benefits or prevent corruption. But, this should be carried out under strict controls. Otherwise, lack of discipline and control may trigger various risks for the organizations. Some of which are as follows:

1. Appropriation Risk: This risk arises if anyone who has intention or behavior to misuse Zakat funds gets access to the funds which are earmarked for Zakat deserving beneficiaries.
2. Reputation Risk: This risk represents the organization's loss of good reputation and trust in its ability to manage Zakat funds in the eyes of the public.
3. Financial Risk: This risk results from loss on investment of Zakat funds. This can reduce the balance and capability to help the Zakat deserving beneficiaries.

#### PROPOSAL FOR INVESTING ZAKAT FUNDS BY ZAKAT ORGANIZATION

There are various theoretical and practical ways (Oang, 2011) for the investment of Zakat funds which can be utilized by the Zakat organizations in compliance to the controls and limits of Shariah and regulatory framework. Some operational procedures are outlined below:

1. After the Zakat organization has obtained the Zakat funds, it should open a sub-current account for each Zakat deserving beneficiary who has been registered and has been approved for a periodic payment. Electronic cards should be issued to each account holder and given to them.
2. These accounts will be credited with the monthly Zakat funds as determined by the Zakat organization according to the information of each Zakat deserving beneficiary.
3. Suitable places will be hired by the organization in the most densely populated areas of Zakat beneficiaries, and commercial markets will be opened in these sites, so that these markets are registered legally.
4. Contracts with suppliers will be made to supply the commercial markets with various basic goods (food, clothes, household tools etc.), in order to meet the needs of Zakat deserving beneficiaries and their various desires. Various windows can be opened within the sites to meet various needs such as paying governmental services (electricity, water, fees etc.). On the other hand, non-Halal goods and highly luxurious goods will not be allowed to be sold in these markets.
5. These commercial markets are considered as direct sales outlets for all people of the state, including Zakat beneficiaries who are allowed to shop and buy through the balances of electronic charge cards that were delivered to them. The value of their purchases will be deducted from the balances of their card accounts.
6. Selling prices of goods in the commercial markets are determined by adding a specific percentage to the cost of the purchased goods, and this percentage is examined to cover all expected expenses of the market and to achieve an appropriate net profit, taking into consideration that the selling prices should be lower than the level of market prices, (this system of pricing is followed by some governmental commercial markets that operate in most countries).
7. Through the contracts made between the organization and the suppliers, the organization will seek to pay at specific periods in the long term. In addition to that, a clause will be added to the contracts that permit for returns of goods to the suppliers due to unsold because of its high prices or lack of desire to purchase them.
8. All types of Halal items can be sold at the commercial markets at their usual selling prices or at lower prices. In addition to that, benefits from the animal products (such as dairy and meat) can also be sold within the markets.
9. The organization also contracts with Islamic insurance companies (Takaful)

to ensure safety of assets exposed to risk (such as disasters and fires).

10. Employees with appropriate experiences and good reputations will be appointed, and priority employment will be given to those who are from among the Zakat beneficiaries and those who are close to the commercial markets.
11. Independent financial statements and periodic reports will be prepared for and by the commercial markets to be presented to Zakat organization to control its work and correct deviations, if any.

Commercial markets can also add various other advantages that help in developing the businesses and serve particular Zakat deserving beneficiary who had balances in their cards. Some of the measures in this regards are as follows:

1. Goods that are sold to Zakat deserving beneficiaries are excluded from sales tax or value added tax in countries that impose such taxes. Of course, this will be done after negotiating with the concerned departments for this procedure, as the jurisdiction and scope of tax mainly covers richer segments of the society.
2. Some of the discounts will be granted only to Zakat deserving beneficiaries for their purchases, which make the selling prices for them lower than the selling prices for the rest of the community.
3. Additional offers of goods are granted during the time of disbursements of Zakat funds in cooperation with suppliers of goods and for the benefit of Zakat deserving beneficiaries only.
4. Various advantages are granted to the suppliers who are committed to pay zakat to Zakat organization, such as priority in bringing their goods to markets for sale, giving them ample and convenient selling spaces to display their products, and also allowing them to promote their products within these markets.

5. Selling to Zakat beneficiaries through electronic cards is allowed by linking to personal cards. It will ensure that electronic cards are not misused in trading and selling.
6. Job opportunities shall be provided for disabled people who are from among the Zakat deserving beneficiaries and whose disability does not prevent them to work in commercial markets.
7. An automated teller machine (ATM) is to be provided within the site of commercial markets, which will allow Zakat deserving beneficiaries to withdraw money at specific percentages of their periodic account balances in order to meet other needs outside the markets (such as transportation expenses, home maintenance work, miscellaneous incidental expenses, etc.).
8. Commercial markets can also be used for providing marketing services to suppliers of goods, which increases the returns of these commercial markets.

It is obvious from the presentation of the procedures of the proposal that it complies with most of the conditions of investing Zakat funds. It can help in achieving many and varied advantages, the most important of which are as follows:

1. The economic feasibility of the investment can easily be studied due to the availability of data. It can be examined that a predetermined profit rate will exceed administrative expenses. In addition to that, knowledge of the numbers of main buyers would be possible. Almost all Zakat deserving beneficiaries who are granted Zakat funds via electronic cards, at least they will buy from the commercial markets.
2. Only necessary goods will be sold in the commercial markets. This also complies with the principles of Islam.
3. Cash flows will be continuous and uninterrupted and renewed on a periodic basis.

4. Hiring sites instead of buying them will contribute to reducing the amount of money blocked in investments. In addition to that, it will help in avoiding having assets that are difficult to be liquidated. Hence, this strategy will help in staying away from assets that are difficult to liquidate.
5. Rationalizing public consumption and controlling Zakat funds by directing them to basic needs that do not conflict with Islamic principles, is a fundamental requirement imposed by Islamic rules and the economy also. Although, that rationalization does not mean limiting consumption to some items only, but rather seeking to stay away from items of goods that come in luxury and that is forbidden by Islamic principles of Israf.
6. Providing basic needs and necessities at one commercial market at lowest prices will help Zakat beneficiaries to increase their consumption spending, and thus achieving a better prosperous life for themselves.
7. Both cash sales and purchasing for long terms - more than 90 days - are being considered as a self-finance option that helps in reducing the investment of Zakat funds and thus recover capital very quickly. Thus, it will limit investment financing to commercial market equipment only, which can also be hired without owning.
8. The use of technology and electronic platforms will reduce risk of dealing with cash.
9. Selling prices of goods will be determined based on the purchasing price with an addition of a small profit rate. Suppliers determine the selling prices of their goods to the final consumers. Inclusion of only a small profit rate may also reduce the final prices for consumers, and this is what makes these commercial markets a strong competitor to other markets in the community.
10. Cash inflows into commercial markets help to quickly recycle Zakat funds to Zakat organization itself, thus moving the economy continuously.
11. Contracting at caution with suppliers contributes to reducing risks and may eliminate them. For example, the turnover of goods must be less than the payment period, and this can prevent damage and reduce undesired expenses.
12. Commercial markets are an important selling outlet for Zakat funds of non-monetary items (such as plants and sheep) instead of distributing them randomly to Zakat deserving beneficiaries who may not need them. Sometimes, these can be misused including animal products (milk).
13. Contracting with Islamic insurance companies (Takaful) reduces and may limit the risks facing the properties of commercial markets. It will have a significant impact on protecting the invested Zakat funds.
14. Providing job opportunities, especially for Zakat deserving beneficiaries is one of the important social objectives which can directly help in reducing unemployment. It can ensure financial stability and socio-economic mobility of Zakat deserving beneficiaries.
15. Continuous monitoring of the commercial markets from the Zakat organization can contribute to correction of undesired deviations, which also reduces the occurrence of losses.
16. In cases where a loss occurs, the balance of the loss must be transferred to Zakat organization to be treated as the administrative expenses of the organization in order to charge it to other party such as the Ministry of Finance, without burdening it on Zakat funds.
17. Selling in commercial markets may be used to assist the organization and the

state with guidance in the implementation of its economic policies.

18. Commercial markets are considered as a huge advertising tool for Zakat organization itself, in which they are reflecting the extent of its service to the Zakat payers and whole society, especially to enhance greater confidence in the organization's activities.
19. This proposal of investment has high transparency that is evident to all parties, especially through the presentation of separate financial statements of the commercial markets.
20. Commercial markets are a source of revenue that helps the organization and the state for vitalizing market economy. It also helps in planning and resource allocation.
21. This proposal has most benefits for Zakat deserving beneficiaries than all the others.

Nonetheless, the advantages of the proposal do not mean that it is completely free of defects that may appear during the investment or commercial activity. The most important defects that may appear are as follow:

1. Establishing a place where the poor and needy are gathering to buy their needs may be considered a wound to their feelings and a violation of the preservation of their dignity, especially those who have chastity.
2. The benefit of the proposal is limited to the category of the poor and needy more than other categories.
3. Commercial markets are sometimes forced to own some assets that may be difficult to liquidate (such as furniture, certain consumer appliances which go outdated ... etc.).

Despite these disadvantages, the advantages of the proposal are numerous and outweigh the disadvantages. Hence, it can become a successful investment option, combining social benefits with commercial benefits.

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