

## EMPOWERING FUTURES: Unveiling Zakat's Vital Role Economic Development and Legal Framework in Malaysia's

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### Abstract

*This study investigates the vital role of zakat in Malaysia's economic development within the context of its legal and public policy frameworks. Zakat, an obligatory form of almsgiving in Islam, serves as a critical instrument for wealth redistribution and social welfare. The background of this study highlights zakat's potential to alleviate poverty, promote social justice, and drive economic empowerment in Muslim-majority countries. The primary objective is to examine how Malaysia's legal provisions,*

*regulatory mechanisms, and public policy initiatives enhance the effectiveness of zakat in achieving these socio-economic goals. The methodology involves a comprehensive review of statutory instruments, state enactments, and administrative practices governing zakat, supported by case study analysis and statistical data on its economic impact. This mixed-methods approach enables a nuanced understanding of the intersection between zakat governance, legal structures, and economic outcomes. The study's findings reveal that Malaysia's structured legal framework and progressive public policies have significantly improved zakat management, leading to effective poverty alleviation, economic empowerment, community development, and crisis response. Importantly, this research contributes to the fields of law and public policy by illustrating how legal reforms, institutional strengthening, and policy integration can maximize the socio-economic benefits of religious fiscal instruments like zakat, thereby fostering a more equitable and resilient national economy.*

*Penelitian ini mengkaji peranan penting zakat dalam pembangunan ekonomi Malaysia dalam konteks kerangka hukum dan kebijakan publik. Zakat, sebagai kewajiban dalam Islam, berfungsi sebagai instrumen utama dalam redistribusi kekayaan dan kesejahteraan sosial. Latar belakang penelitian ini menyoroti potensi zakat dalam mengentaskan kemiskinan, mempromosikan keadilan sosial, dan mendorong pemberdayaan ekonomi di negara-negara dengan mayoritas Muslim. Tujuan utama penelitian ini adalah untuk menganalisis bagaimana ketentuan hukum, mekanisme regulasi, dan inisiatif kebijakan publik di Malaysia memperkuat efektivitas zakat dalam mencapai tujuan sosial ekonomi tersebut.*

*Metodologi yang digunakan melibatkan tinjauan komprehensif terhadap instrumen hukum, enakmen negara bagian, serta praktik administratif yang mengatur zakat, yang didukung oleh analisis studi kasus dan data statistik terkait dampak ekonomi zakat. Pendekatan metode campuran ini memungkinkan pemahaman yang mendalam mengenai keterkaitan antara tata kelola zakat, struktur hukum, dan hasil-hasil ekonomi. Hasil penelitian menunjukkan bahwa kerangka hukum yang terstruktur dan kebijakan publik yang progresif di Malaysia secara signifikan meningkatkan pengelolaan zakat, sehingga efektif dalam pengentasan kemiskinan, pemberdayaan ekonomi, pembangunan komunitas, serta penanganan krisis. Secara khusus, penelitian ini memberikan kontribusi pada bidang hukum dan kebijakan publik dengan menunjukkan bagaimana reformasi hukum, penguatan kelembagaan, dan integrasi kebijakan dapat memaksimalkan manfaat sosial ekonomi dari instrumen fiskal keagamaan seperti zakat, guna mewujudkan perekonomian nasional yang lebih adil dan tangguh.*

**Keywords:** *economic empowering, legal framework, zakat.*

## Introduction

Zakat, one of the five pillars of Islam, is a compulsory act of almsgiving that plays a crucial role in the socio-economic dynamics of Muslim-majority countries.<sup>1</sup> In Malaysia, zakat is more than a religious obligation; it functions as a strategic tool for poverty alleviation, wealth redistribution, and the promotion of social justice. The legal foundation for zakat in Malaysia is rooted in the Federal Constitution. Article 3(1) establishes Islam as the religion of the Federation while allowing other religions to be practiced. This

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<sup>1</sup> M. Z. Hossain, 'Zakatin Islam: A Powerful Poverty Alleviating Instrument for Islamic Countries', *International Journal of Economic Development Research and Investment* 3, no. 1 (2012): 1–11.

constitutional framework enables Islamic laws, including zakat, to be enforced through state authorities. Each of the 13 Muslim-majority states has its own zakat enactments that mandate zakat collection, specify rates, and regulate its administration and distribution. Islamic Religious Councils (Majlis Agama Islam) are statutory bodies responsible for managing zakat funds in accordance with Shariah principles to support poverty alleviation and social welfare. By mandating that a portion of wealth be given to those in need, zakat helps reduce economic disparities and fosters social cohesion.

The significance of zakat in promoting economic development and social welfare cannot be overstated, particularly in a country like Malaysia, where it supports a substantial segment of the population. This study aims to explore how zakat, when managed within a structured legal framework, contributes to Malaysia's economic growth and development. Malaysia's approach to zakat administration is distinctive due to its integration within a comprehensive legal structure governed by state Islamic Religious Councils (IRCs). These councils ensure that zakat is collected and distributed in accordance with Shariah principles, thereby enhancing both its effectiveness and transparency.<sup>2</sup> The Malaysian model also incorporates modern administrative practices, such as digital platforms, to facilitate efficient zakat management. Although zakat management in Malaysia is relatively advanced, several challenges persist, including inconsistencies in administrative practices among different states, varying efficiency levels in zakat collection and distribution, public skepticism regarding transparency, and gaps in

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<sup>2</sup> Tengku Mohd Azizuddin Tuan Mahmood, Abdullah Al Mamun, And Mohamed Dahlan Ibrahim, 'A Proposed Conceptual Framework Of Asnaf Empowerment Program: Developing A Millennial Asnaf Outcome Model (MAOM)', *Azka International Journal Of Zakat Social Finance*, 2021, [Https://Www.Researchgate.Net/Profile/Tengku-Mohd-Tuan-Mahmood/Publication/344227974\\_A\\_Proposed\\_Conceptual\\_Framework\\_Of\\_Asnaf\\_Empowerment\\_Program\\_Developing\\_A\\_Millennial\\_Asnaf\\_Outcome\\_Model\\_Maom\\_Cadangan\\_Kerangka\\_Kerja\\_Konseptual\\_Program\\_Memperkasakan\\_Ekonomi\\_Asnaf\\_Pembangunan\\_Model\\_/Links/5f5e2b4a92851c0789635dbd/A-Proposed-Conceptual-Framework-Of-Asnaf-Empowerment-Program-Developing-A-Millennial-Asnaf-Outcome-Model-Maom-Cadangan-Kerangka-Kerja-Konseptual-Program-Memperkasakan-Ekonomi-Asnaf-Pembangunan-Model-K.pdf](Https://Www.Researchgate.Net/Profile/Tengku-Mohd-Tuan-Mahmood/Publication/344227974_A_Proposed_Conceptual_Framework_Of_Asnaf_Empowerment_Program_Developing_A_Millennial_Asnaf_Outcome_Model_Maom_Cadangan_Kerangka_Kerja_Konseptual_Program_Memperkasakan_Ekonomi_Asnaf_Pembangunan_Model_/Links/5f5e2b4a92851c0789635dbd/A-Proposed-Conceptual-Framework-Of-Asnaf-Empowerment-Program-Developing-A-Millennial-Asnaf-Outcome-Model-Maom-Cadangan-Kerangka-Kerja-Konseptual-Program-Memperkasakan-Ekonomi-Asnaf-Pembangunan-Model-K.pdf).

institutional accountability.<sup>3</sup> Each state's Islamic Religious Council (Majlis Agama Islam Negeri) operates under its own enactments and regulations, leading to a lack of uniformity at the national level.<sup>4</sup> Nevertheless, Malaysia's legal framework plays a crucial role in addressing these challenges. The establishment of IRCs under state enactments legally empowers these institutions to manage zakat collection and distribution in compliance with Shariah principles, ensuring both religious adherence and structured governance.<sup>5</sup> These councils have also adopted modern administrative tools, such as digital zakat payment platforms and online aid application systems, significantly enhancing transparency, efficiency, and accessibility. Overall, the legal framework not only ensures that zakat is managed within the bounds of Shariah but also strengthens institutional capacity, promotes public trust, and optimizes the socio-economic impact of zakat distribution across Malaysia.

This study delves into the legal and administrative structures that underpin zakat in Malaysia, examining how they amplify its impact across various economic sectors. By highlighting the multifaceted role of zakat, this research underscores its importance in building a more equitable and resilient Malaysian economy. Several studies have addressed similar themes. Muneer M. Alshater, for instance, discusses zakat in the context of religion, institutional frameworks, poverty eradication, and distribution management.<sup>6</sup> Religious authorities at both state and federal levels have expanded the scope of zakat to

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<sup>3</sup> Hassan, M. K., & Noor, A. H. M. (2015). The Application of Zakat in Modern Economic System: An Institutional Analysis. *Intellectual Discourse*, 23(1), 21–40.

<sup>4</sup> Abdul Rahman, R., & Ahmad, S. (2011). Zakat institutions in Malaysia: Problems and issues. *Global Journal Al-Thaqafah*, 1(2), 35–41.

<sup>5</sup> Mohd Ali, A. F., Shirazi, N. S., & Abdul Aziz, M. R. (2017). Efficiency in zakat institutions: A study of performance measurement. *International Journal of Ethics and Systems*, 33(3), 313–329.

<sup>6</sup> Muneer M. Alshater et al., 'What Do We Know about Zakat Literature? A Bibliometric Review', *Journal of Islamic Accounting and Business Research* 12, no. 4 (10 June 2021): 544–63, <https://doi.org/10.1108/JIABR-07-2020-0208>.

include several contemporary forms of wealth and assets.<sup>7</sup> Muhammad Iqmal Hisham Kamaruddin highlights the significant impact of zakat on the elements of maqasid shariah and the Sustainable Development Goals (SDGs).<sup>8</sup> Rahmini Hadi emphasizes that digital zakat management positively influences accountability and accelerates zakat growth.<sup>9</sup> Imron Mawardi adds that zakat empowerment programs and business assistantships positively affect the growth of *mustahiq* businesses, thereby improving their well-being.<sup>10</sup>

Previous research has also highlighted variations in zakat management systems across different countries, reflecting diverse legal and administrative frameworks. In countries like Saudi Arabia and Indonesia, zakat management is centralized under national bodies—such as the Saudi Zakat, Tax and Customs Authority and Indonesia's National Amil Zakat Agency (BAZNAS)—ensuring standardized collection and distribution.<sup>11</sup> In contrast, Malaysia employs a decentralized system, where each state's Islamic Religious Council is responsible for managing zakat. While this approach allows for greater local autonomy, it can lead to inconsistencies in effectiveness and

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<sup>7</sup> Syaharina Abdullah, Asmak Ab Rahman, and Luqman Abdullah, 'Zakatability of Contemporary Wealth in Malaysia / Syaharina Abdullah, Asmak Ab Rahman and Luqman Abdullah', *Journal of Contemporary Islamic Studies* 9, no. 2 (October 2023): 1–24.

<sup>8</sup> Muhammad Iqmal Hisham Kamaruddin and Mustafa Mohd Hanefah, 'Bridging Zakat Impacts Toward Maqasid Shariah and Sustainable Development Goals (SDGs), Influence of Corporatization and Experiences on COVID-19', in *Islamic Wealth and the SDGs: Global Strategies for Socio-Economic Impact*, ed. Mohd Ma'Sum Billah (Cham: Springer International Publishing, 2021), 393–420, [https://doi.org/10.1007/978-3-030-65313-2\\_20](https://doi.org/10.1007/978-3-030-65313-2_20).

<sup>9</sup> R. Hadi et al., 'Digital Zakat Management, Transparency in Zakat Reporting, and the Zakat Payroll System toward Zakat Management Accountability and Its Implications on Zakat Growth Acceleration', *International Journal of Data and Network Science* 8, no. 1 (2024): 597–608.

<sup>10</sup> Imron Mawardi et al., 'Analyzing the Impact of Productive Zakat on the Welfare of Zakat Recipients', *Journal of Islamic Accounting and Business Research* 14, no. 1 (1 January 2022): 118–40, <https://doi.org/10.1108/JIABR-05-2021-0145>.

<sup>11</sup> Aziz, M. A. (2013). Zakat and its role in poverty alleviation: A comparative study. *International Journal of Islamic Economics and Finance*, 4(3), 45–60; Yulianti, M. (2019). The role of BAZNAS in zakat distribution and its impact on poverty alleviation in Indonesia. *Journal of Islamic Social Finance*, 5(2), 203–217.

implementation across states.<sup>12</sup> Additionally, countries like the United Arab Emirates treat zakat as a voluntary donation rather than a mandatory tax, offering a different perspective on its role in social welfare.<sup>13</sup> The comparison of these systems reveals that the legal and institutional frameworks significantly affect the efficiency, transparency, and equity of zakat distribution. Malaysia's legal framework, through the enactment of state laws and the establishment of Islamic Religious Councils, emphasizes compliance with Shariah principles while integrating modern administrative practices, such as digital zakat systems, to enhance the effectiveness of zakat management.<sup>14</sup>

This study presents a novel contribution by exploring the crucial role of zakat in Malaysia's economic development through the lens of a structured legal framework. Unlike previous research, which primarily focuses on the focuses on the religious and managerial aspects of zakat, this study emphasizes the relationship between zakat administration, supported by a robust legal system, and its significant economic outcomes, particularly in economic empowerment, poverty alleviation, and community development. A robust legal system in this context refers to the comprehensive set of laws, regulations, and institutional structures that govern zakat collection, distribution, and management in Malaysia. This system includes the Federal Constitution, state enactments, Islamic Religious Councils, and various legal mechanisms that ensure zakat is administered in accordance with Shariah principles. Furthermore, the integration of modern practices, such as digital platforms for zakat collection and transparency, enhances the efficiency and effectiveness of zakat management.<sup>15</sup> These elements work together to create a legally sound

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<sup>12</sup> Mohd Ali, A. F., Shirazi, N. S., & Abdul Aziz, M. R. (2017). Efficiency in zakat institutions: A study of performance measurement. *International Journal of Ethics and Systems*, 33(3), 313–329.

<sup>13</sup> Bakar, A. (2018). Legal approaches to zakat administration in the Middle East: A comparative study. *Journal of Islamic Studies*, 29(1), 102–118.

<sup>14</sup> Abdul Rahman, R., & Ahmad, S. (2011). Zakat institutions in Malaysia: Problems and issues. *Global Journal Al-Thaqafah*, 1(2), 35–41.

<sup>15</sup> Suparto Suparto, Admiral Admiral, and Deni Jaya Saputra, 'Local Government Authority in The Field of Religion; A Study of Regional Regulation (Perda) on Zakat in Riau

environment that maximizes the socio-economic benefits of zakat while ensuring accountability, compliance, and fair distribution. The primary objectives of this research are, first, to analyze how Malaysia's legal and administrative framework enhances the effectiveness of zakat on economic empowerment and social development in Malaysia. The scholarly contribution of this study lies in highlighting the importance of a solid legal and administrative system in maximizing the socio-economic benefits of zakat, offering a potential model for other Muslim-majority countries.

### Research Method

This research employs a normative juridical method, aimed at analyzing the legal framework governing zakat management in Malaysia. This approach focuses on exploring written laws, regulations, policies, and official documents relevant to zakat. In addition, a comparative approach is applied to examine the differences and similarities in the legal framework for zakat across Malaysian states, as well as the roles of national authorities such as JAKIM and MAIWP. A historical approach is utilized to trace the development of zakat regulations from their inception to current implementation, while a sociological approach is adopted to understand the socio-economic impact of zakat implementation on Malaysian society and development. This research uses two main types of data: primary and secondary data. Primary data includes the Federal Constitution of Malaysia, state enactments such as the *Administration of the Religion of Islam (State of Selangor) Enactment 2003* and the *Administration of the Religion of Islam (State of Johor) Enactment 2003*, as well as policies and guidelines issued by JAKIM and MAIWP. Secondary data includes journal articles, books, research reports, and relevant statistical data, including literature on the Sustainable Development Goals (SDGs) and the role of zakat in socio-economic development.

The data collection techniques employed in this study include library research to gather legal documents, academic literature, and official reports. In addition, document analysis is conducted to examine laws, policies, and reports

related to zakat.<sup>16</sup> If necessary, semi-structured interviews<sup>17</sup> will be conducted with zakat experts or practitioners, including officials from JAKIM or MAIWP, to obtain supplementary insights. Data analysis is conducted using a qualitative juridical method, involving the identification and classification of data, comparative analysis, normative interpretation, and synthesis of findings. Data is grouped based on its sources, such as federal laws, state enactments, and national policies. The Federal Territory Islamic Religious Administration Enactment 1993 governs the management of zakat in the Federal Territories, including Kuala Lumpur, Putrajaya, and Labuan. Following this, the Selangor Zakat Board Enactment 1997 established the Selangor Zakat Board (LZS) with authority to collect, manage, and distribute zakat within Selangor. In Johor, the Johor Zakat Collection Enactment 2001 regulates the collection and distribution of zakat in the state. Negeri Sembilan provides a legal framework for zakat management through the Negeri Sembilan Zakat Enactment 2005, while in Pahang, zakat operations are governed under the Pahang Islamic Religious Council as stipulated in the Pahang Zakat Enactment 2001. Kelantan is one of the earliest states with zakat legislation, with the Kelantan Zakat Enactment 1982 comprehensively regulating zakat affairs in the state. Lastly, the Malacca Zakat Enactment 1990 provides the legal authority for zakat administration in Malacca. Collectively, these enactments create a systematic legal framework that ensures zakat management is conducted orderly and in accordance with regional provisions.

A comparative analysis is employed to identify similarities and differences across state enactments. Relevant legal provisions are interpreted in accordance with Shariah principles and Malaysia's broader legal context, while synthesized findings present a holistic overview of zakat management in the country. This study focuses on three main aspects: the legal framework, implementation and effectiveness, and zakat's contribution to development. The legal framework analysis includes state and national authorities' jurisdiction over zakat management and the roles of JAKIM, MAIWP, and

<sup>16</sup> Muhammad Mutawalli Mukhlis et al., 'Democratization or Extra-Constitutionalism: Ideas for Limiting the Term of Office for Chairmen of Political Parties in Indonesia', *Jambura Law Review* 6, no. 2 (24 July 2024): 367–402.

<sup>17</sup> Dwi Martini et al., 'Halal Tourism In West Nusa Tenggara: A Legal And Economic Perspective', *Jurnal IUS Kajian Hukum Dan Keadilan* 8, no. 3 (22 December 2020): 472–83, <https://doi.org/10.29303/ius.v8i3.827>.

state Islamic Religious Councils (IRCs) in ensuring Shariah compliance and standardization. The implementation aspect evaluates mechanisms for zakat collection, management, and distribution, including the role of technology in enhancing administrative efficiency. Lastly, zakat's contribution to development is assessed through its impact on poverty alleviation, community development, social justice, and the achievement of SDGs. The results of this study are expected to make a significant contribution to the understanding and development of zakat management systems in Malaysia. Based on the findings, the analysis identifies both strengths and weaknesses in zakat management, particularly in relation to legal policy. Strengths include the clear legal mandate for zakat collection and distribution through well-established institutions such as the Islamic Religious Councils, which ensure transparency and compliance with Shariah principles. Additionally, the legal framework has facilitated the adoption of modern tools, such as digital platforms, to streamline zakat administration and increase public participation. However, weaknesses have been identified in the areas of inconsistent enforcement of zakat policies across different states, lack of coordination between zakat institutions, and the challenge of addressing the evolving needs of the recipients. There is also a gap in utilizing zakat funds efficiently for long-term economic empowerment and community development. Policy recommendations include strengthening the coordination between federal and state zakat institutions to ensure uniformity in zakat collection and distribution. It is also recommended to enhance the legal framework for zakat to address emerging challenges, such as digital transformation, while ensuring that zakat funds are used strategically for sustainable poverty alleviation and community development projects. Additionally, increasing transparency and accountability mechanisms will help build public trust and optimize zakat management.

### **Zakat Legal Framework in Malaysia**

The legal framework governing zakat in Malaysia is complex and multi-tiered, reflecting the country's unique federal structure, where Islamic matters are primarily under state jurisdiction yet coordinated at the national level. This comprehensive system ensures that zakat administration is both locally relevant and nationally consistent, adhering to Shariah principles while

addressing the specific needs of each state. The Federal Constitution of Malaysia provides the legal foundation for the administration of Islamic matters, including zakat. It grants individual states the authority to legislate on Islamic issues, reflecting the federal nature of the country. Specifically, the Ninth Schedule of the Federal Constitution outlines the jurisdiction of states over Islamic law, which includes the collection and distribution of zakat. According to the Constitution, zakat is categorized under Islamic law in Item 1, List II (State List) of the Ninth Schedule. This section states: "Islamic law, personal and family law of persons professing the religion of Islam, including the Islamic law relating to zakat, fitrah, and *Baitulmal* (public treasury) or similar Islamic religious revenue." Additionally, in terms of grants and revenue allocated to states, Item 13, Part III of the Tenth Schedule explicitly lists zakat, fitrah, and other Islamic revenues as state revenue sources. Notably, Article 97(3) of the Federal Constitution stipulates that any zakat collected must be deposited into a separate fund, distinct from the consolidated state funds as outlined in paragraph (2) of the same article. Therefore, zakat is considered state revenue, and each state authority holds full jurisdiction over its zakat funds.<sup>18</sup>

Despite this decentralization, significant national-level coordination ensures uniformity and standardization in zakat administration across the country. The Department of Islamic Development Malaysia (JAKIM) plays a pivotal role by providing guidelines, frameworks, and support to State Islamic Religious Councils (IRCs) to ensure that zakat collection and distribution adhere to national standards and Shariah principles. The Federal Territories Islamic Religious Council (MAIWP) is another key body at the national level, overseeing zakat administration in the federal territories and setting benchmarks for other states.

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<sup>18</sup> Nazri Ramli and Zuhairah Ariff Abdul Ghadas, 'An Appraisal on the Obligation of Companies to Pay Zakat: The Malaysian Law and Shariah Perspectives', *International Journal* 4, no. 15 (2019): 08–17.

Each of Malaysia's 13 states and the federal territories has its own IRC responsible for administering zakat within their jurisdiction. These IRCs operate under state-specific enactments that provide the legal basis for their functions. They are tasked with collecting zakat from eligible Muslims and distributing it to the designated *asnaf* (eligible zakat recipients) categories, including the poor, the needy, and other eligible recipients as specified under Islamic law.<sup>19</sup> Each state has enacted its own laws and regulations governing zakat under administration of the religion of Islam every state.<sup>20</sup> For example, the state of Kedah has a dedicated law for zakat, namely the Kedah Zakat Board Enactment 2015. In Selangor, zakat administration is governed by the Administration of the Religion of Islam (State of Selangor) Enactment 2003, while in Johor, it is regulated by the Administration of the Religion of Islam (State of Johor) Enactment 2003. These laws outline the processes for zakat collection, management, and distribution, and define the roles and responsibilities of each IRC.

State IRCs employ various mechanisms to manage zakat funds effectively. They ensure that zakat collection is done transparently and efficiently, often utilizing modern digital platforms to facilitate payments.<sup>21</sup> The distribution of zakat is conducted in strict adherence to Shariah principles, ensuring that funds are directed towards the eligible *asnaf*

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<sup>19</sup> (Abdalrahman Migdad, 2019).

<sup>20</sup> Administration of Islamic Law (Federal Territories) Act 1993; Administration of the Religion of Islam (State of Johor) Enactment 2003; Kelantan Council of the Religion of Islam and Malay Customs Enactment 1994; Administration of the Religion of Islam (State of Melaka) Enactment 2002; Administration of the Religion of Islam (Negeri Sembilan) Enactment 2003; Administration of the Religion of Islam and Malay Customs Pahang Enactment 1982 (Amended 2020); Administration of the Religion of Islam (Perak) Enactment 2004; Administration of the Religion of Islam (Perlis) Enactment 2006; Administration of the Religion of Islam (State of Penang) Enactment 2004; Administration of the Religion of Islam (State of Selangor) Enactment 2003; Administration of Islamic Affairs (Terengganu) Enactment 2001; Administration of Islamic Law (Sabah) Enactment 1992; Sarawak Islamic Council Ordinance 2001

<sup>21</sup> Khaliq Ahmad and Muhamad Hasif Yahaya, 'Islamic Social Financing and Efficient z Akat Distribution: Impact of Fintech Adoption among the Asnaf in Malaysia', *Journal of Islamic Marketing* 14, no. 9 (2023): 2253–84.

categories. This includes providing financial assistance, supporting educational initiatives, funding healthcare services, and other community development projects. The legal framework for zakat in Malaysia is a well-structured and coordinated system that combines federal oversight with state-level implementation. The Federal Constitution provides the legal basis for state jurisdiction over Islamic matters, while national bodies like JAKIM and MAIWP ensure standardization and support. State IRCs are responsible for the practical administration of zakat, guided by state-specific enactments and modern administrative practices. This comprehensive approach ensures that zakat is managed effectively, transparently, and in accordance with Shariah principles, significantly contributing to Malaysia's socio-economic development. The administration of zakat in Malaysia is rooted in the country's federal structure, where Islamic matters, including zakat, fall under the jurisdiction of individual states. Each state has established its own Islamic Religious Council (IRC) to manage zakat affairs, guided by state-specific enactments and regulations that align with Shariah principles.<sup>22</sup>

### **Role and Function of Zakat Institutions in Every State in Malaysia**

The Zakat Institutions in each Malaysian state play a pivotal role in administering and managing zakat, ensuring that this essential Islamic obligation is fulfilled in accordance with Shariah principles. Each state has its own Islamic Religious Council (IRC), tasked with the collection, management, and distribution of zakat. These councils operate under state-specific enactments that align with the federal structure, ensuring that zakat administration is both locally relevant and compliant with national standards.<sup>23</sup> Their primary role is to ensure that zakat funds are collected from eligible Muslims and distributed efficiently and effectively to the designated

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<sup>22</sup> Muhsin Nor Paizin, 'Decentralization in Malaysia's Zakat Management Organizations: A Comparison of Some States' Zakat Collection Achievements', *International Journal of Zakat* 7, no. 1 (2022): 33–46.

<sup>23</sup> Fadziani Yaakub, 'Kewajipan Membayar Zakat: Analisis Undang-Undang Zakat Di Malaysia', *Journal of Contemporary Islamic Studies* 9, no. 1 (2023): 1–20.

categories of beneficiaries, known as *asnaf* (eligible zakat recipients). One of the critical functions of these state IRCs is the systematic collection of zakat. This involves setting up mechanisms and platforms to facilitate easy and transparent payment of zakat by individuals and businesses. Many states have adopted modern digital solutions, such as online payment portals and mobile applications, to streamline the collection process. This modernization effort not only enhances efficiency but also increases compliance among zakat payers by making the process more accessible. The IRCs also engage in extensive awareness and educational campaigns to inform the public about their zakat obligations and the impact of their contributions on societal welfare.<sup>24</sup>

Once collected, the management and distribution of zakat funds are conducted with meticulous care to ensure compliance with Shariah laws. State IRCs are responsible for identifying and verifying the eligibility of *asnaf*, ensuring that the funds are directed to those who are genuinely in need. The eight categories of *asnaf*, including the poor, the needy, those in debt, and others specified in Islamic law, are carefully considered in the distribution process. The IRCs implement various programs to support these beneficiaries, ranging from direct financial assistance to long-term empowerment initiatives such as vocational training, educational scholarships, and microfinance projects. In addition to collection and distribution, the IRCs play a vital role in community development and crisis management. Zakat funds are often used to support infrastructure projects, such as building schools, hospitals, and community centers, particularly in underserved areas. In times of natural disasters or economic crises, zakat institutions provide timely relief and support to affected populations, demonstrating their flexibility and responsiveness. Regular audits and compliance checks are conducted to maintain transparency and public trust, ensuring that the funds are utilized effectively. Through these multifaceted roles, the Zakat Institutions in each

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<sup>24</sup> Khairul Azhar Meerangani, 'The Role of Zakat in Human Development', *SALAM: Jurnal Sosial Dan Budaya Syar-i* 6, no. 2 (2019): 141–54.

Malaysian states contribute significantly to the nation's socio-economic development, fostering a more equitable and resilient society.

Many states have integrated modern administrative practices to enhance the efficiency of zakat management. For example, Selangor, through the Selangor Zakat Board (LZS) established under the Selangor Zakat Board Enactment 1997, has adopted advanced systems for zakat collection, distribution, and monitoring to ensure transparency and effectiveness. Similarly, the Federal Territories, governed by the Federal Territory Islamic Religious Administration Enactment 1993, have implemented modern administrative frameworks to streamline zakat operations in Kuala Lumpur, Putrajaya, and Labuan. These efforts reflect a broader trend among states like Johor, Negeri Sembilan, and Pahang, where zakat councils and boards have embraced technology and improved governance structures to optimize zakat management, ensuring timely distribution and better service to beneficiaries. Such integration of contemporary administrative methods supports the sustainability and accountability of zakat institutions across Malaysia. Digital platforms and mobile applications are widely used to facilitate zakat payments, track contributions, and ensure transparent distribution.<sup>25</sup> These technologies enable real-time tracking and reporting, thereby increasing accountability and fostering public trust in the zakat system. Regular audits and compliance reviews are conducted to ensure that zakat funds are managed responsibly and reach the intended beneficiaries. These oversight mechanisms are critical for maintaining the integrity of the zakat system and ensuring that the funds are effectively used to alleviate poverty and promote social welfare.<sup>26</sup>

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<sup>25</sup> Muhammad Ikhlas Rosele et al., 'The Digitalized Zakat Management System in Malaysia and the Way Forward', *AL-IHKAM: Jurnal Hukum & Pranata Sosial* 17, no. 1 (2022): 242–72.

<sup>26</sup> Muhammad Iqmal Hisham Kamaruddin, Mustafa Mohd Hanefah, and Rosnia Masruki, 'Challenges and Prospects in Waqf Reporting Practices in Malaysia', *Journal of Financial Reporting and Accounting* 22, no. 3 (May 2024): 752–65, <https://doi.org/10.1108/JFRA-01-2022-0018>; Muhammad Iqmal Hisham Kamaruddin, Sofiah Md Auzair, and Saunah Zainon, 'Financial Management Practices in Malaysian Islamic Social Enterprises (ISE)', *Management*

## The Role of Zakat in Malaysia's Economic Development

In Malaysia, the Sustainable Development Goals (SDGs) serve as a guiding framework for the nation's development agenda, aiming to address various socio-economic challenges while promoting sustainability and inclusivity.<sup>27</sup> Zakat, as a form of Islamic almsgiving, aligns closely with several SDGs by addressing poverty, hunger, healthcare, education, and community development.<sup>28</sup> Zakat institutions in Malaysia, operated by state Islamic Religious Councils (IRCs), play a crucial role in mobilizing zakat funds and directing them towards initiatives that contribute to achieving the SDGs. Legally, Malaysia's zakat system is governed by state Islamic laws, with each state having its own Islamic Law Enactment that provides the legal framework for zakat administration. The role of the IRCs is enshrined in these enactments, giving them the authority to collect, manage, and distribute zakat. These legal provisions ensure that zakat is used in accordance with Shariah principles, but the effectiveness of zakat administration varies across states due to differences in state laws and administrative practices.

To strengthen zakat's role in achieving the SDGs, there is a need for a more harmonized and robust legal framework that ensures consistency in zakat management and distribution across the country. By leveraging zakat as a strategic tool for social and economic development, Malaysia can make significant strides towards realizing the SDGs and building a more equitable and sustainable future for its citizens. The integration of zakat into Malaysia's SDG framework requires collaboration among government agencies, zakat institutions, NGOs, and other stakeholders to ensure alignment with national

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and Accounting Review 21, no. 2 (August 2022): 1–25,  
<https://doi.org/10.24191/MAR.V21i02-01>.

<sup>27</sup> Mohsen Noghani Dokht Bahmani and Mahdi Nik Khah, 'The Resilience of Students' Families in Facing Economic Consequences with an Emphasis on Their Educational Actions (Case Study: Mashhad Rabat Targeh Town)', *Social-Economic Development Studies* 1, no. 1 (2023): 148–76.

<sup>28</sup> Randi Swandaru, Priyesta Rizkiningsih, and Deden Kuswanda, 'Zmart: Poverty Alleviation and Women Empowerment Program Through Micro Retail Shop Business', *Jurnal REKSA: Rekayasa Keuangan, Syariah Dan Audit* 9, no. 1 (2022): 37–49.

development priorities and SDG targets.<sup>29</sup> Efforts to enhance transparency, accountability, and efficiency in zakat administration can further strengthen its impact on achieving the SDGs.<sup>30</sup> Additionally, raising awareness and promoting zakat as a means of fulfilling religious obligations while contributing to broader societal goals can encourage greater participation and support from the Muslim community. By harnessing the potential of zakat within the context of the SDGs, Malaysia can accelerate progress towards a more prosperous, inclusive, and sustainable future for all segments of society. Zakat significantly impacts Malaysia's economic development through various channels, primarily focusing on poverty alleviation, wealth redistribution, and social welfare enhancement. The legal landscape for zakat administration should also address key areas such as auditing, reporting, and monitoring of zakat funds. State zakat laws should be amended to mandate independent third-party audits, ensuring that zakat funds are properly managed and used for their intended purposes. A clearer, more consistent regulatory framework across states would increase public confidence in zakat institutions and ensure that zakat's contribution to the SDGs is maximized. The following outlines key areas where zakat contributes to the nation's economic growth and stability:

*First, Poverty Alleviation.* Poverty alleviation in Malaysia is a multifaceted endeavor involving various social, economic, and governmental initiatives aimed at reducing the prevalence of poverty and improving the well-being of affected individuals and communities. Malaysia has made significant strides in poverty reduction over the years, with poverty rates declining steadily due to sustained economic growth, improved access to education and

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<sup>29</sup> Eko Suprayitno, Mohamed Aslam, and Azhar Harun, 'Zakat and SDGs: Impact Zakat on Human Development in the Five States of Malaysia', *International Journal of Zakat* 2, no. 1 (2017): 61–69.

<sup>30</sup> Rafidah Ab Rahman, Sabrina Ahmad, and Ummi Rabaah Hashim, 'A Study on Gamification for Higher Education Students' Engagement Towards Education 4.0', in *Intelligent and Interactive Computing*, ed. Vincenzo Piuri et al., vol. 67, Lecture Notes in Networks and Systems (Singapore: Springer Singapore, 2019), 491–502, [https://doi.org/10.1007/978-981-13-6031-2\\_5](https://doi.org/10.1007/978-981-13-6031-2_5).

healthcare, and targeted poverty alleviation programs. In Malaysia, while significant progress has been made in reducing poverty over the years, poverty alleviation remains a critical issue. According to data from the Department of Statistics Malaysia, the national poverty rate stood at 5.6% in 2019, representing approximately 405,441 households living below the national poverty line. However, poverty rates vary significantly across states and regions, with rural areas generally experiencing higher poverty rates compared to urban areas. Issues related to poverty alleviation in Malaysia include income inequality, unequal access to education and healthcare, inadequate housing, lack of employment opportunities, and vulnerabilities to economic shocks and natural disasters.

Income inequality is a key concern, with disparities in income distribution exacerbating poverty levels among marginalized communities. Despite Malaysia's economic growth, a significant portion of the population continues to struggle with low wages and precarious employment, particularly in the informal sector. Additionally, access to quality education and healthcare remains uneven, with rural and indigenous communities often facing barriers such as inadequate infrastructure, limited resources, and cultural barriers. These disparities perpetuate intergenerational cycles of poverty, hindering socio-economic mobility and contributing to persistent inequalities. Furthermore, inadequate housing and living conditions pose significant challenges for poverty alleviation efforts. Many low-income households in urban areas live in substandard housing conditions, lacking access to basic amenities such as clean water, sanitation, and electricity. In rural areas, indigenous communities may face land tenure issues and lack access to essential infrastructure and services, further marginalizing them from economic opportunities. Addressing these issues requires comprehensive and targeted interventions, including social protection programs, skills training initiatives, job creation strategies, affordable housing schemes, and community development projects. Additionally, enhancing access to education, healthcare, and social services, as well as promoting inclusive economic growth and

sustainable development, are essential for achieving long-term poverty reduction and fostering social inclusion in Malaysia.

The role of zakat, as a form of Islamic almsgiving, is deeply intertwined with poverty alleviation efforts in Malaysia. Zakat serves as a potent tool for redistributing wealth and addressing socio-economic disparities within society. Collected from eligible Muslims based on their wealth, zakat funds are channeled towards supporting the less fortunate and marginalized segments of the population, known as *asnaf* (eligible zakat recipients). These categories include the poor, the needy, debtors, those in bondage, and others specified in Islamic law<sup>31</sup> Zakat institutions in Malaysia, primarily operated by state Islamic Religious Councils (IRCs), play a crucial role in the effective management and distribution of zakat funds. These institutions work diligently to ensure that zakat collections are transparently administered and disbursed to eligible beneficiaries in a fair and equitable manner. The zakat collection process is regulated by law to guarantee compliance with religious obligations.<sup>32</sup> State enactments authorize the zakat bodies to collect and distribute collected zakat to those in need, particularly targeting the eight categories of *asnaf* outlined in Islamic law for example the Council shall have the authority to collect zakat and fitrah from every Muslim who is liable to pay such dues within the State of Selangor, in accordance with Hukum Syarak, on behalf of His Royal Highness the Sultan.<sup>33</sup> This provision reflects the statutory authority granted to the religious council in Selangor, aligning with Islamic legal principles (Hukum Syarak) for the collection of obligatory alms (zakat and fitrah) on behalf of the Sultan as the Head of the Religion of Islam in the state. In Negeri Sembilan, the relevant legal authority is embedded in the Negeri Sembilan Islamic Religious

<sup>31</sup> Syarifah Md Yusof, Raziah Md Tahir, and Azizah Othman, 'Permasalahan Asnaf Fakir Dan Miskin', *Int J Zakat Islam Philanthr* 1, no. 2 (2019), [https://www.researchgate.net/profile/Syarifah-Md-Yusof/publication/339780805\\_Permasalahan\\_asnaf\\_fakir\\_dan\\_miskin/links/5e649d444585153fb3ca2181/Permasalahan-asnaf-fakir-dan-miskin.pdf](https://www.researchgate.net/profile/Syarifah-Md-Yusof/publication/339780805_Permasalahan_asnaf_fakir_dan_miskin/links/5e649d444585153fb3ca2181/Permasalahan-asnaf-fakir-dan-miskin.pdf).

<sup>32</sup> Example: S

<sup>33</sup> Administration of the Religion of Islam (State of Selangor) Enactment 2003 (Enactment No. 1 of 2003), s 86.

Administration Enactment 2003, where Section 86 empowers the Majlis Agama Islam Negeri Sembilan (MAINS) to manage zakat affairs. The MAINS zakat division, through Pusat Zakat Negeri Sembilan (PZNS), implements a wide range of anti-poverty initiatives including Skim Bantuan Kewangan Bulanan, Bantuan Sara Hidup, and Bantuan Keusahawanan. These programmes are executed under the supervision of MAINS' enforcement and audit mechanisms, ensuring both legal compliance and strategic impact.<sup>34</sup>

In Perak for example, the administration of zakat is governed under the Perak Islamic Religious Administration Enactment 2004, particularly under Section 75, which confers authority to the Perak Islamic Religious and Malay Customs Council (MAIPk) to administer zakat collection and distribution. Supplemented by internal guidelines and fatwas, MAIPk operationalises zakat funds through structured *asnaf* assistance programmes. One of the most structured initiatives in zakat-driven economic empowerment is the Asnaf Economic Empowerment Programme (PROPER A), which aims to transform eligible zakat recipients (*asnaf*) into self-sufficient entrepreneurs. Through this programme, participants receive training designed to enhance their entrepreneurial knowledge, promote self-reliance, and build resilience and competitiveness in the marketplace. The programme strategically targets several key economic sectors, including services, manufacturing, agriculture, livestock farming, product branding and marketing, as well as mentor-mentee development schemes.<sup>35</sup> These initiatives are legally supported by zakat-specific governance structures within MAIPk, and aim to transition *asnaf* from chronic poverty to socio-economic resilience.

*Second*, Economic Empowerment. Economic empowerment in Malaysia encompasses initiatives aimed at enhancing the economic status and opportunities for individuals and communities, particularly those who are

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<sup>34</sup> Majlis Agama Islam Negeri Sembilan (MAINS). (2022). Laporan Zakat Negeri Sembilan 2022. <https://www.mains.gov.my>

<sup>35</sup> Majlis Agama Islam dan 'Adat Melayu Perak (MAIPk). (2022). Laporan Tahunan MAIPk 2022. <https://www.maiamp.gov.my>

marginalized or poor. This involves providing access to resources, skills training, employment opportunities, and entrepreneurship support to enable individuals to improve their livelihoods, generate income, and achieve financial independence. Malaysia has implemented various economic empowerment programs targeting different sectors of society, including women, youth, rural communities, and minority groups, with the aim of fostering inclusive and sustainable economic growth. The role of zakat in economic empowerment in Malaysia is significant, as it serves as a mechanism for redistributing wealth and supporting those in need to participate more actively in the economy. Zakat funds are directed towards empowering individuals and communities through various economic initiatives, including vocational training, skills development, education scholarships, and microfinance programs. By providing financial assistance and resources, zakat enables beneficiaries to acquire the necessary skills and tools to secure employment, start their own businesses, or engage in productive economic activities.

The administration of zakat is governed at the state level by state Islamic Religious Councils (IRCs), resulting in distinct statutory and regulatory frameworks across different regions. Despite these differences, a common legal and operational theme is emerging: the strategic use of zakat as a tool not merely for charity, but for long-term economic empowerment such as zakat in Selangor, the Federal Territories (Kuala Lumpur), and Kedah support this developmental paradigm through structured empowerment programmes for *asnaf*. In Selangor, the legal foundation is provided by the Administration of the Religion of Islam (State of Selangor) Enactment 2003, particularly Section 86, which empowers the Majlis Agama Islam Selangor (MAIS) to collect and administer zakat and fitrah on behalf of the Sultan. Complementing this, the Zakat and Fitrah Regulations (Selangor) 2012 regulate the collection and distribution of zakat, allowing it to be channelled into "asnaf development programmes". This regulatory scope has enabled Lembaga Zakat Selangor (LZS) to implement initiatives such as the Bantuan Modal Perniagaan,

Bantuan Peningkatan Perniagaan, and vocational skills training, which aim to shift recipients from dependence to financial independence.<sup>36</sup>

The administration of zakat in the state of Kedah has witnessed a significant transformation over the past two decades, driven by both legal reform and strategic institutional restructuring. Central to this evolution is the Lembaga Zakat Negeri Kedah (LZNK), the state agency mandated with the collection and distribution of zakat, which operates under the legal authority of the Kedah Islamic Religious Administration Enactment 2008. From a legal standpoint, LZNK stands as a model of how Islamic institutions can adapt and thrive within a state-driven legal framework while maintaining fidelity to Shariah principles. Under Section 89 of the Enactment, the Majlis Agama Islam Negeri Kedah (MAIK) is vested with the power to collect and administer zakat in the state. MAIK subsequently delegates the operational management of zakat affairs to LZNK, which functions as a corporatised body governed by Islamic principles and supported by state legal mechanisms. This delegation is both legal and strategic, enabling LZNK to exercise administrative and financial autonomy while maintaining accountability to the Majlis and compliance with Hukum Syarak. The legal recognition of LZNK's corporate structure and its governance capacity represents a progressive shift in Malaysia's zakat administration model, one that merges public religious authority with private sector efficiency. Lembaga Zakat Negeri Kedah (LZNK) has since operationalised this mandate through programmes such as Skim Agihan Ekonomi Asnaf (SAEA) and Zakat@Biz, focusing on start-up funding, entrepreneurship training, and employment creation (LZNK, 2022). These initiatives align with the maqasid al-shariah objective of preserving wealth (hifz al-mal) and promoting human dignity (karamah insaniyyah).<sup>37</sup> Collectively, the legal provisions across these three jurisdictions reflect a progressive

<sup>36</sup> Meerangani, K. A., & Azman, U. K. Z. (2019). Transformasi usahawan asnaf menerusi program pembangunan ekonomi, Lembaga Zakat Selangor. *Jurnal Ilmi*, 9, 15–29

<sup>37</sup> Yaacob, M. R. (2020). The concept of maqasid al-shariah in zakat distribution: Case study of Kedah. *Journal of Fatwa Management and Research*, 21(2), 45–62.

interpretation of zakat management. While rooted in classical Islamic jurisprudence, their implementation demonstrates adaptability to contemporary socio-economic needs. The shift from consumptive to productive zakat distribution underscores a broader vision of zakat not just as financial relief, but as a legal and moral mechanism for economic transformation within Muslim communities. Besides that, through zakat-funded programs, beneficiaries are empowered to break the cycle of poverty, overcome economic barriers, and contribute positively to the country's economic development. The investment of zakat funds for the poor is guided in order for the funds to grow and benefit the poor.<sup>38</sup>

Third, Social Justice and Equity. In Malaysia, social justice and equity are fundamental principles aimed at ensuring fair treatment and equal opportunities for all individuals and communities, regardless of their socio-economic background, ethnicity, religion, or gender. While Malaysia has made significant progress in various socio-economic indicators, issues related to social justice and equity persist, reflecting underlying structural challenges and systemic inequalities within society. Data from various sources highlight disparities and challenges related to social justice and equity in Malaysia. For instance, the Gini coefficient, a measure of income inequality, stood at 0.399 in 2019, indicating significant income disparities within the population. Additionally, access to quality education and healthcare services varies across different regions and communities, with rural and indigenous populations often facing barriers such as inadequate infrastructure, limited resources, and cultural biases.

Gender inequality persists in various spheres, including employment, education, political participation, and access to resources, despite efforts to promote gender mainstreaming and empower women. Addressing these issues

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<sup>38</sup> Arif Zunaidi, Fachrial Lailatul Maghfiroh, and Nurul Athirah Mohd Azmi, 'The Role of Gusdurian Peduli's Philanthropic Actions in Overcoming the Economic Turbulence of Communities Affected by COVID-19', *TSQAQFAH* 20, no. 1 (2024), <https://ejournal.unida.gontor.ac.id/index.php/tsaqaqah/article/view/9943>.

requires multi-dimensional and inclusive approaches that prioritize social justice, human rights, and equitable development. Policies and programs aimed at reducing income inequality, improving access to education and healthcare, promoting inclusive economic growth, and protecting the rights of marginalized communities are essential for advancing social justice and equity in Malaysia. Additionally, efforts to strengthen legal frameworks, enhance access to justice, combat discrimination, and promote diversity and inclusion are crucial for building a more just, equitable, and inclusive society for all Malaysians. In terms of legal aspect for example several key provisions under Part XII of the Zakat and Fitrah (Selangor) Regulations 2012 serve to uphold the principles of social justice and equity within the zakat system. Section 44, which penalizes the act of providing false information, ensures fairness in zakat collection by obligating transparency and honesty, thereby safeguarding the rights of the *asnaf* to receive rightful allocations. Similarly, Section 45 addresses willful evasion of zakat obligations, promoting distributive justice by preventing wealth hoarding and reinforcing the duty of the affluent to contribute to the welfare of the underprivileged. Section 47 further strengthens institutional accountability by criminalizing misconduct by zakat officers, ensuring that the system operates with integrity and impartiality, and that no group is unfairly disadvantaged. Moreover, Section 48, which targets abetment of offences, reinforces collective responsibility and ethical compliance across all levels of zakat administration. Together, these legal provisions establish a robust framework that enhances public trust, ensures equitable distribution of zakat, and supports the broader objective of achieving social justice in line with Islamic economic principles.

Social justice and equity in Malaysia pertain to the fair and impartial treatment of all individuals and communities, regardless of their socio-economic status, ethnicity, religion, or background. It involves ensuring that everyone has equal access to opportunities, resources, and rights, and that systemic barriers to social mobility and inclusion are dismantled. Malaysia, with its diverse population and multi-cultural society, recognizes the

importance of promoting social justice and equity as fundamental principles for fostering unity, harmony, and national development. Zakat plays a crucial role in promoting social justice and equity in Malaysia by addressing economic disparities and redistributing wealth among society's members. Collected from those who possess wealth above a certain threshold, zakat funds are channeled towards supporting the less privileged and marginalized segments of the population, known as *asnaf*. This includes providing financial assistance, essential services, and support for education, healthcare, and livelihoods to ensure that everyone has access to the necessities of life. Those who are vulnerable and in need are prioritized as they struggle to meet their basic needs. Zakat aids them in achieving adequate living conditions and fulfilling essential requirements such as food, housing, clothing, healthcare, and education. Furthermore, anyone who reverts to Islam is eligible to receive zakat, regardless of their financial status, as it serves to provide both moral and financial support to this group of recipients.<sup>39</sup>

Zakat institutions in Malaysia, operated by state Islamic Religious Councils (IRCs), are responsible for the transparent and equitable distribution of zakat funds to eligible beneficiaries. These institutions work tirelessly to identify and assess the needs of *asnaf* categories, ensuring that zakat is distributed fairly and according to Islamic principles. By targeting vulnerable groups and addressing their specific needs, zakat helps level the playing field and reduces socio-economic disparities, thereby promoting social justice and equity in Malaysian society. Furthermore, zakat's role in promoting social justice extends beyond direct financial assistance to fostering a culture of compassion, empathy, and solidarity among Malaysians. By encouraging the more affluent members of society to share their wealth with those in need, zakat promotes a sense of collective responsibility and mutual support. Through zakat, individuals and communities are not only empowered

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<sup>39</sup> Abdul Majed and Nur Harena Redzuan, 'A Proposed Framework on Zakat in The Healthcare System for The Poor', *AZKA International Journal of Zakat & Social Finance*, 2023, 67–76.

economically but also empowered to advocate for justice, equality, and human dignity, contributing to a more inclusive and harmonious society in Malaysia.

*Fourth, Community Development.* Zakat is a foundational pillar in the Islamic socio-economic system, functioning not only as a religious obligation but also as a mechanism for community empowerment. In Malaysia, state-level enactments and subsidiary regulations govern the administration of zakat such as with the Zakat and Fitrah (Selangor) Regulations 2012 providing a legal framework for effective implementation. Part XII of these regulations, comprising Sections 44 to 51, outlines various offences and penalties aimed at ensuring lawful compliance and ethical conduct within zakat institutions. This section plays a critical role in strengthening the institutional framework necessary for zakat to function as a tool for sustainable community development. Section 48 (Abetment of Offences) expands legal responsibility to include those who facilitate or conspire in the commission of zakat-related offences. This creates a broader legal culture of compliance and reinforces collective accountability within the zakat ecosystem. When legal responsibilities are widely internalised across society, zakat institutions are better equipped to execute inclusive programs for income generation, skill enhancement, and empowerment of marginalized groups, especially within rural and urban poor communities. Legal protection of institutional identity is essential in preserving the credibility of zakat bodies, ensuring that all collected funds are channeled to legitimate beneficiaries. This is particularly significant in building trust for community-based initiatives such as cooperative development and microfinance projects as stated under the Section 49 (Unauthorized Use of the Board's Name and Logo) which addresses the issue of impersonation or unauthorized use of institutional identity for fraudulent purposes.

Community development is a multifaceted and cooperative effort aimed at improving the quality of life and well-being in specific geographic regions. This process includes a variety of activities and initiatives designed to tackle social, economic, and environmental issues while fostering inclusivity and

empowering community members.<sup>40</sup> Community development initiatives encompass various sectors, including education, healthcare, infrastructure, economic empowerment, and social services, with the overarching goal of promoting social cohesion, economic growth, and resilience at the grassroots level. Zakat plays a vital role in community development efforts in Malaysia by providing financial resources and support to address the needs of vulnerable and marginalized communities.<sup>41</sup> Zakat funds, collected from eligible Muslims based on their wealth, are channeled towards financing projects and programs that benefit the community. This includes the construction of schools, mosques, community centers, healthcare facilities, and infrastructure projects, as well as initiatives aimed at improving access to clean water, sanitation, and housing in underserved areas. For example, the financial and equipment assistance provided by Lembaga Zakat Negeri Kedah (LZNK) to asnaf entrepreneurs has shown positive impacts on their investments.<sup>42</sup> Beyond increasing income through cost savings, the support has also generated additional benefits such as time savings. This allows entrepreneurs to spend more time with their families while managing their businesses. These institutions work closely with local communities, government agencies, non-profit organizations, and community-based groups to identify priority areas for intervention and implement sustainable development initiatives. Through zakat-funded projects and programs, individuals and families are brought together to work towards common goals, strengthening social ties and promoting a sense of belonging and shared responsibility. By investing in community development, zakat not only improves the lives of individuals and families but also contributes to the overall well-being and prosperity of

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<sup>40</sup> T. Nyamari, 'Social Capital and Community Development', *International Journal of Humanity and Social Sciences* 3, no. 1 (2024): 14–27.

<sup>41</sup> Mohamed Fathy Eletrebi, Hassan Suleiman, and Mohammad Najmuddin Abdul Aziz, 'The Developmental Objectives (Maqāṣid) of Zakāh', *International Journal of Zakat and Islamic Philanthropy* 1 (2019), [http://irep.iium.edu.my/76133/2/Vol1\\_16\\_9\\_19.pdf](http://irep.iium.edu.my/76133/2/Vol1_16_9_19.pdf).

<sup>42</sup> Hazeline Ayoub et al., 'Pulangan Sosial Atas Pelaburan: Kajian Impak Skim Agihan Zakat Bantuan Jayadiri Asnaf Di Negeri Kedah', *AZKA International Journal of Zakat & Social Finance*, 2023, 39–56.

Malaysian society. For example, the financing of al-Qard utilizes zakat funds through the Qard al Hasan Loan Assistance Scheme by the Melaka Zakat Center. The Melaka Islamic Religious Council (MAIM) provides productive assistance in the form of business loans.<sup>43</sup>

*Fifth, Crisis Relief.* In the past three years, Malaysia has faced various crises, including natural disasters, public health emergencies, and socio-economic challenges, necessitating robust crisis relief efforts to support affected individuals and communities. One significant crisis was the COVID-19 pandemic, which had a profound impact on the country's economy, healthcare system, and social well-being. Data from the Malaysian government and international organizations provide insights into the scale and scope of crisis relief efforts in Malaysia.<sup>44</sup> During the COVID-19 pandemic, the government implemented various measures to mitigate the impact of the crisis, including financial assistance programs, healthcare initiatives, and social protection measures. For example, the primary increase in the average amount of assistance received has been attributed to *Bantuan Prihatin Nasional 2.0* and Zakat funds, the latter being a mandatory annual payment made by Muslims, ranging from 2.5% to 20% of their yearly income and/or business profits, aimed at aiding the extremely poor. Since May 2020, the average Zakat assistance has risen by 27%, reaching RM144 (USD35) per month. The two United Nations agencies highlighted the importance of rethinking social protection in Malaysia, advocating for broader income support coverage for

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<sup>43</sup> Norhayati Mohamad Nor and Abdul Basir Mohamad, 'Pembentangan Al-Qard Menerusi Dana Zakat Kepada Usahawan Asnaf B40 MAIWP', *AZKA International Journal of Zakat & Social Finance*, 2023, 23–48.

<sup>44</sup> MUHAMMAD HAIQAL TAJUDEN et al., 'Effects Of Pandemic Covid-19 On The Malaysian Economy, Focused On Five Important Industries And Shariah Viewpoints', *Iqtishaduna* 13, no. 2 (2022), <https://journal.uinmataram.ac.id/index.php/iqtishaduna/article/view/6113>.

low-income households and targeted livelihood assistance, especially for the self-employed.<sup>45</sup>

Issues related to crisis relief in Malaysia include access to healthcare services, economic vulnerability, food insecurity, and social protection gaps. The pandemic highlighted disparities in healthcare access, with marginalized communities facing challenges such as limited access to testing, treatment, and vaccination services. Economic vulnerabilities, including job losses, income reduction, and business closures, exacerbated financial hardships for many households, particularly those in the informal sector and low-income groups.<sup>46</sup> Food insecurity emerged as a pressing concern, with vulnerable populations struggling to afford adequate nutrition due to income loss and disruptions to food supply chains. Furthermore, social protection gaps, such as inadequate social safety nets and support systems, exposed vulnerable individuals and communities to heightened risks and vulnerabilities during the crisis. Addressing these issues requires comprehensive and coordinated efforts from the government, civil society, private sector, and international partners. Priorities include enhancing healthcare infrastructure and services, expanding social protection programs, promoting inclusive economic recovery, strengthening food security measures, and building resilience to future crises. By addressing the underlying vulnerabilities and systemic challenges exposed by recent crises, Malaysia can better prepare for and respond to future emergencies, ensuring the well-being and resilience of its population.

Crisis relief in Malaysia involves the provision of immediate assistance and support to individuals and communities affected by natural disasters, emergencies, or socio-economic crises. This encompasses a range of interventions, including humanitarian aid, emergency response, shelter assistance, food distribution, healthcare services, and psychosocial support,

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<sup>45</sup> Sity Daud, 'The COVID-19 Pandemic Crisis in Malaysia and the Social Protection Program', *Journal of Developing Societies* 37, no. 4 (December 2021): 480–501, <https://doi.org/10.1177/0169796X211041154>.

<sup>46</sup> Lin Lean Lim, *Key Workers in Malaysia during the Pandemic*, 81 (ILO Working Paper, 2022), <https://www.econstor.eu/handle/10419/265598>.

aimed at mitigating the impact of crises and helping affected populations recover and rebuild their lives. Malaysia has experienced various crises over the years, including floods, droughts, pandemics, and economic downturns, highlighting the importance of effective crisis relief mechanisms in safeguarding the well-being and resilience of its people. The role of zakat in crisis relief efforts in Malaysia is significant, as it serves as a vital source of funding for providing emergency assistance to those in need during times of crisis.<sup>47</sup> Zakat funds, collected from eligible Muslims based on their wealth, are mobilized quickly and efficiently to address the urgent needs of affected populations, including providing food, shelter, medical care, and other essential services. Zakat institutions in Malaysia, operated by state Islamic Religious Councils (IRCs), play a crucial role in coordinating and delivering zakat-funded relief efforts, working closely with government agencies, non-profit organizations, and community partners to ensure a rapid and effective response to crises.<sup>48</sup> Sections 50 (Enforcement) and 51 (Prosecution) for example confer statutory authority on designated officers to investigate and prosecute offences under the zakat regulations. These enforcement powers are crucial to transforming legal provisions from mere normative statements into actionable mechanisms. The capacity to enforce laws not only deters non-compliance but also reassures the public that zakat funds are administered equitably and judiciously. This legal credibility supports the broader mission of zakat as a developmental instrument for social justice, equity, and resilience in times of crisis.<sup>49</sup>

Zakat-funded crisis relief initiatives in Malaysia are guided by principles of compassion, solidarity, and social responsibility, reflecting the Islamic values of charity and generosity. Zakat institutions prioritize reaching the most vulnerable and marginalized communities, including those living in remote or

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<sup>47</sup> Hiroshi Oikawa, 'The Role of Zakat in Communal Mutual Support under the Covid-19 Crisis in Malaysia', *關西大學商學論集* 67, no. 1 (2022): 11–24.

<sup>48</sup> Meerangani, 'The Role of Zakat in Human Development'.

<sup>49</sup> Zakat and Fitrah (Selangor) Regulations 2012

hard-to-reach areas, ensuring that no one is left behind in times of crisis. By providing timely and targeted assistance, zakat helps alleviate suffering, restore dignity, and rebuild livelihoods, enabling affected individuals and communities to recover and rebuild their lives with resilience and dignity. Furthermore, zakat's role in crisis relief extends beyond immediate assistance to supporting long-term recovery and resilience-building efforts. Zakat-funded projects and programs may include rehabilitation initiatives, livelihood support, infrastructure reconstruction, and capacity-building activities aimed at helping communities recover from the impact of crises and become more resilient to future shocks. Through zakat, individuals and communities are not only provided with the immediate assistance they need during times of crisis but also empowered to overcome adversity, rebuild their lives, and thrive in the face of challenges.<sup>50</sup>

*Sixth, Building Micro-Entrepreneurship within Community.* The iTEKAD initiative was launched by BNM during the pandemic to help low-income microentrepreneurs improve their financial management and business skills, enabling them to generate sustainable income as an initiative to align with the strategic goals of the Financial Sector Blueprint 2022 – 2026, for enhancing the financial well-being of households and businesses. According to Bank Islam (2023) - one of the full-fledged Islamic banks in Malaysia-, the initiative taken by this bank by creating an entity within the bank known as Sadaqa house which mobilizes zakat fund as a mechanism to assist micro-entrepreneur's segment through grants, training and education (Bank Islam, 2023). The overall activities of Sadaqa House are overseen by the Sadaqa House and Zakat Committee with Sadaqa House Management Guideline, which was approved by Bank Islam's Management Risk Control Committee and Shariah Supervisory Council. Bank Islam also adheres to BNM's 2016 Corporate Governance Policy in managing public donations for Sadaqa House. Additionally, the Sadaqa House Management Guideline was developed

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<sup>50</sup> Oikawa, 'The Role of Zakat in Communal Mutual Support under the Covid-19 Crisis in Malaysia'.

with reference to various international frameworks, including the UK Charity Commission's guidance and the Australian Charities and Not-for-profits Commission's guides.<sup>51</sup>

Bank Rakyat also makes its own move by endeavoring entrepreneurship leadership series by providing seed funding to selected *asnaf* energized by zakat fund. In addition, the program fosters entrepreneurial skills with the aim of improving participants' bankability by giving them access to business banking services at the conclusion of a six-month program.<sup>52</sup> Relating to the initiatives, Meerangani, K. A., & Azman, U. K. Z. (2019) demonstrate how this kind of program, in especially the one run by Lembaga Zakat Selangor (LZS), benefits *asnaf* and raises their monthly income. The shift affects *Asnaf's* income on a limited scale, but it also benefits others by allowing them to contribute to zakat, which might enhance zakat collection and be used for economic development at the same time. This is one of the real sustainability case achieved by zakat empowerment project. In Malaysia, the administration of zakat is governed by state legislation, reflecting the decentralized nature of Islamic religious affairs. Both the State of Selangor and the Federal Territories, including Kuala Lumpur, have specific legal frameworks that enable the utilization of zakat not only for direct financial aid, but also for community development initiatives, particularly in fostering micro-entrepreneurship among *asnaf* (eligible zakat recipients).

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<sup>51</sup> Azhar Alam et al., 'AL-AWQAF', *Jurnal Wakaf Dan Ekonomi Islam* 12, no. 1 (2023), [https://www.researchgate.net/profile/Azhar-Alam-3/publication/376414034\\_Waqf\\_Crowdfunding\\_System\\_on\\_Donation\\_Application\\_A\\_Conceptual\\_Model\\_Case\\_in\\_Indonesia\\_and\\_Implemented\\_Strategies\\_to\\_Boost\\_Waqf\\_Digitalization/links/6577edc0cbd2c535ea19fda3/Waqf-Crowdfunding-System-on-Donation-Application-A-Conceptual-Model-Case-in-Indonesia-and-Implemented-Strategies-to-Boost-Waqf-Digitalization.pdf](https://www.researchgate.net/profile/Azhar-Alam-3/publication/376414034_Waqf_Crowdfunding_System_on_Donation_Application_A_Conceptual_Model_Case_in_Indonesia_and_Implemented_Strategies_to_Boost_Waqf_Digitalization/links/6577edc0cbd2c535ea19fda3/Waqf-Crowdfunding-System-on-Donation-Application-A-Conceptual-Model-Case-in-Indonesia-and-Implemented-Strategies-to-Boost-Waqf-Digitalization.pdf).

<sup>52</sup> Azhar Nicolas Soraya, Alawode, Abayomi A., Rehman, Aamir Abdul, Mohd Rasid, Mohamed Eskandar Shah Bin, Lavigne-Delville, Jerome Henri Roger, 'Tracking Progress: Impact Monitoring of Social Finance (November 2023)', Text/HTML, World Bank, accessed 30 December 2024, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099102423052035665/P17960102d56cc03908aa7012611297e252>.

In Selangor, the legal authority for zakat administration is established under the Administration of the Religion of Islam (State of Selangor) Enactment 2003, specifically Section 83, which empowers the Majlis Agama Islam Selangor (MAIS) to manage and distribute zakat in accordance with Hukum Syarak. Complementing this, the Zakat and Fitrah Regulations (Selangor) 2012 detail the procedures for zakat distribution to the eight recognized *asnaf* categories. While the law does not explicitly mention entrepreneurship, in practice, the Lembaga Zakat Selangor (LZS) has operationalized zakat distribution through various socio-economic development programmes, such as the Bantuan Modal Perniagaan Asnaf, which provides capital and capacity-building training for small-scale businesses owned by *asnaf*.<sup>53</sup> This approach represents a shift from purely consumptive aid to productive empowerment, directly contributing to sustainable community development and economic resilience. Similarly, in the Federal Territories, the Administration of Islamic Law (Federal Territories) Act 1993 (Act 505) provides the legislative foundation for zakat management by the Majlis Agama Islam Wilayah Persekutuan (MAIWP). Under Section 74(2)(z), MAIWP is authorized to collect and distribute zakat in accordance with Islamic legal principles. The implementation of this mandate is supported by the Zakat Regulations (Federal Territories) 2016, which guide the mechanisms of zakat collection and disbursement. Through its operational agency, Pusat Pungutan Zakat MAIWP (PPZ-MAIWP), several initiatives have been introduced to build entrepreneurial capacity among *asnaf*, including the Program Pembangunan Ekonomi Asnaf and Skim Pembiayaan Mikro. These initiatives aim to cultivate long-term economic empowerment, reduce dependency, and promote financial self-reliance. Thus, while the statutory provisions in both jurisdictions may not expressly articulate the promotion of micro-entrepreneurship, their interpretation and application in practice reflect

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<sup>53</sup> Meerangani, K. A., & Azman, U. K. Z. (2019). *Transformasi Usahawan Asnaf Menerusi Program Pembangunan Ekonomi, Lembaga Zakat Selangor*. *Jurnal Ilmi*, 9, 15–29

a broader vision of zakat as an instrument of socio-economic development. These efforts align with contemporary approaches in Islamic social finance, which advocate for the integration of zakat with developmental objectives to address poverty in a holistic and sustainable manner.

## Conclusion

In conclusion, this research highlights the crucial role of zakat in Malaysia's economic development within a structured legal framework, emphasizing its impact on economic empowerment, poverty alleviation, social justice, and community development. When effectively managed by state Islamic Religious Councils (IRCs) under clear legal mandates, zakat fosters a more inclusive and resilient economy through targeted initiatives and strategic investments that support both immediate socio-economic needs and long-term sustainable growth. The legal empowerment of IRCs, coupled with the adoption of digital platforms, enhances efficiency and public accountability in zakat administration. However, challenges persist, including inconsistent enforcement of zakat policies across different states, fragmentation between federal and state zakat institutions, and inadequate strategic allocation and monitoring of zakat funds. These issues hinder the uniformity and effectiveness of zakat management, limiting its full socio-economic impact. Therefore, strengthening the legal framework is essential. This includes mandating independent third-party audits, enforcing comprehensive public reporting of zakat fund usage, and improving coordination among zakat institutions. Such reforms will enhance transparency, accountability, and efficiency—ensuring that zakat serves as a powerful catalyst for inclusive economic growth, poverty reduction, and social equity in Malaysia. Ultimately, these improvements aim to empower marginalized communities and build a more just and prosperous society. Furthermore, state zakat councils should be required to publish annual reports detailing zakat fund usage and the measurable impact of their distribution programs.

Future research should focus on evaluating the effectiveness of zakat management across states to identify best practices and areas for improvement. A comparative study on the impact of modern digital platforms in enhancing zakat administration could provide valuable insights for nationwide implementation. Additionally, exploring the integration of zakat with broader socio-economic policies and the Sustainable Development Goals (SDGs) can highlight opportunities for optimizing its role in addressing poverty and inequality. It is also recommended to investigate the role of public awareness campaigns in increasing zakat compliance and engagement, as well as to assess the long-term socio-economic impact of zakat-funded programs on *asnaf* communities.

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