A ZAKAT –BASED SYSTEM FOR JUSTICE, ECONOMIC GROWTH, AND WELFARE FOR ALL

(THE ECONOMIC USES OF ZAKAT FOR THE PURPOSE OF INDUSTRIALIZATION TO REDUCE THE NUMBER OF ZAKAT RECIPIENTS THROUGH DIRECT AND INDIRECT EMPLOYMENT)

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Abstract

Zakat, one of the five pillars of Islam, is not merely a religious duty but a socio-economic instrument aimed at wealth redistribution and social justice. Beyond its traditional role as charity, zakat holds the potential to serve as a catalyst for industrialization and employment generation. By directing zakat funds toward productive ventures, Muslim societies can create jobs, empower individuals, and gradually reduce the number of zakat recipients. This paper explores how zakat can be transformed into a mechanism for economic growth and sustainable industrial development through direct and indirect employment creation.

1. Introduction

Zakat (obligatory almsgiving) is a fundamental component of the Islamic economic system, designed to purify wealth and promote social equity. It is a divine command meant to balance society by transferring a portion of wealth from the rich to the poor (Qur'an, 9:60). While often viewed as a charitable act, zakat is in fact a fiscal tool with significant economic implications. When properly administered, zakat can serve as a development fund, helping transform passive charity into active economic empowerment.

In modern Muslim societies facing unemployment and poverty, the need to utilize zakat for productive purposes has become critical. Industrialization—creating and expanding industries—offers a pathway to mass employment, economic stability, and poverty reduction. Therefore, channeling zakat toward industrialization aligns with the objectives of Shariah (Maqasid al-Shariah) by ensuring social welfare, justice, and prosperity.

2. Zakat as an Economic Institution

Zakat is not simply a voluntary contribution but an obligatory payment mandated by Islamic law. It is the cornerstone of an Islamic fiscal policy, designed to redistribute wealth and prevent its concentration among the few. According to the Qur'an (9:60), there are eight categories (asnaf) eligible to receive zakat:

1. The poor (al-fuqara'),
2. The needy (al-masakin),
3. Those employed to collect zakat ('amilin 'alayha),
4. Those whose hearts are to be reconciled (mu'allafatu qulubuhum),
5. Those in bondage (fi al-riqab),

6. Those in debt (al-gharimin),
7. In the cause of Allah (fi sabilillah), and
8. The wayfarer (ibn al-sabil).

Several of these categories—particularly fi sabilillah, al-fuqara, and al-masakin—can be interpreted to include initiatives that create sustainable livelihoods. Classical jurists such as Imam al-Ghazali and Ibn Taymiyyah recognized the socio-economic dimensions of zakat beyond mere consumption (Kahf, 1999). In this way, zakat can be understood as a perpetual engine for economic renewal rather than a short-term relief mechanism.

3. Linking Zakat to Industrialization

Industrialization is a process of transforming economies from primarily agricultural to manufacturing-based systems. It not only boosts productivity and exports but also generates mass employment opportunities. The challenge for Muslim societies is to connect zakat collection with industrial development to achieve inclusive growth.

Using zakat funds for productive purposes—known as "productive zakat"—involves investing in enterprises that generate income for the poor. Rather than distributing zakat solely as cash handouts, it can finance small industries, cooperative businesses, and vocational training programs (Kuran, 2012). For instance, zakat can be allocated to:

1. Establish small manufacturing units in rural areas.
2. Provide machinery or equipment to trained artisans.
3. Develop vocational centers for the unemployed.
4. Create cooperative enterprises managed by zakat beneficiaries.

Such investments can turn zakat into a revolving asset. The beneficiaries, once employed or self-sufficient, no longer depend on zakat and may themselves become future zakat payers, thus closing the cycle of poverty.

4. Direct Employment Creation through Zakat

One of the most direct ways zakat supports industrialization is through job creation. Industrial projects financed by zakat can employ low-income individuals directly in production, assembly, or management. For example, small-scale textile units, food-processing factories, or furniture workshops can be funded partially or wholly through zakat capital.

Countries like Malaysia and Indonesia have demonstrated this model effectively. The Zakat Pulau Pinang program in Malaysia uses zakat to finance micro-businesses and industrial workshops, employing hundreds of poor workers annually (Hasan, 2015). Similarly, Indonesia's Badan Amil Zakat Nasional

(BAZNAS) invests zakat funds into community industries, producing long-term employment and income growth.

By financing the establishment of micro-industrial parks, zakat institutions can create hubs where multiple small enterprises operate together, sharing infrastructure and resources. This approach promotes efficiency and sustainability, ensuring that zakat funds are not exhausted in one-time disbursements but contribute to lasting employment and wealth creation.

5. Indirect Employment and the Multiplier Effect

Beyond direct job creation, zakat-funded industrialization stimulates indirect employment through what economists call the “multiplier effect.” When industries are established, they require raw materials, logistics, maintenance, marketing, and other services—all of which create new business opportunities.

For instance, a zakat-financed textile factory not only employs tailors and machine operators but also supports cotton suppliers, transport workers, shopkeepers, and food vendors. In this way, every unit of zakat invested in productive industry multiplies economic activity across the value chain (Chapra, 2008).

Furthermore, the increase in disposable income among previously poor individuals generates new demand for goods and services, fueling further production and employment. Hence, the integration of zakat with industrial policy produces a self-sustaining growth cycle that reduces unemployment while enhancing community welfare.

6. From Zakat Recipients to Zakat Payers

The ultimate goal of Islamic social finance is empowerment—transforming beneficiaries into contributors. Productive use of zakat ensures that the poor are not perpetually dependent on charity. Once recipients gain stable employment or start their own enterprises, they become financially independent and eligible to pay zakat themselves.

This transformation reflects the prophetic principle that “the upper hand (that gives) is better than the lower hand (that receives)” (Sahih al-Bukhari, 1427H). Through employment and entrepreneurship, individuals gain dignity, social inclusion, and economic freedom. As the number of dependents decreases, the community’s overall zakat obligation is distributed more efficiently, fostering a virtuous cycle of growth and giving.

In the long run, this approach reduces the number of zakat recipients, converting potential liabilities into productive assets for the economy.

7. Policy Implications and Contemporary Models

For zakat to function effectively as a development tool, it must be integrated into broader economic planning and industrial policy. Governments and zakat institutions can collaborate to identify key sectors where zakat can make the greatest impact—such as small-scale manufacturing, food processing, or renewable energy.

Key policy recommendations include:

Creation of Zakat Investment Funds: These funds can invest in socially responsible industrial projects, ensuring that zakat capital generates returns without violating Shariah principles.

Vocational and Skills Training: Training programs for zakat recipients ensure they can work effectively in industrial setups.

Public–Private Partnerships: Collaboration between government agencies, private firms, and zakat boards can maximize efficiency.

Transparency and Accountability: Proper governance, auditing, and performance tracking build public trust in zakat management.

Successful models already exist. Malaysia's Lembaga Zakat Selangor (LZS), for example, allocates part of its funds to empower entrepreneurs through business capital and skill development programs. In Sudan, the Zakat Chamber supports agricultural and small industrial projects that employ zakat recipients, demonstrating tangible socio-economic improvement (Abdullah, 2013).

8. Conclusion

Zakat, when employed strategically, can serve as a cornerstone for sustainable industrial development and employment generation in Muslim societies. Rather than being confined to short-term relief, zakat can catalyze economic transformation by funding productive industries and empowering individuals through work.

Through direct and indirect employment creation, zakat not only alleviates poverty but also reduces dependency, turning recipients into active participants in economic life. This aligns perfectly with the spirit of Islam, which emphasizes self-reliance, dignity, and the collective welfare of society.

In essence, zakat has the potential to become an Islamic model of inclusive industrialization, balancing spiritual duty with socio-economic progress—transforming charity into productivity, and dependency into empowerment.

References

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