ZAKAT INVESTMENT IN MALAYSIA :
AN ANALYSIS OF SHARIAH COMPLIANCE PERSPECTIVE

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ABSTRACT

The management of zakat funds is a significant responsibility that demands both administrative efficiency and strict adherence to Shariah principles, particularly in safeguarding the trust of the Muslim community and fulfilling the rights of the *asnaf*. In light of economic challenges such as the COVID-19 pandemic, concerns have arisen regarding the sustainability of relying solely on public contributions for zakat collection. As a long-term strategy, the concept of zakat fund investment (*istithmar* zakat) has been proposed by Islamic scholars as a means of generating continuous benefits for the *asnaf*. However, the permissibility and feasibility of such investments remain subjects of scholarly debate, especially in relation to Shariah compliance. This study focuses on the Kedah State Zakat Board (LZNK) and aims to explore the potential and practicality of implementing zakat fund investments from a Shariah compliance perspective. The research analyzes LZNK's current position, policies, and level of preparedness for zakat investment while assessing how such practices could align with core Shariah principles and the economic needs of the asnaf community in Kedah. Findings reveal that, although zakat investment has not yet been implemented by LZNK, there is growing awareness and internal discourse surrounding its potential. Nevertheless, several critical issues must be addressed comprehensively, including the preservation of zakat's original purpose, risk management, and prioritization of the immediate needs of *asnaf*. Ultimately, this study proposes several recommendations as mechanisms to enhance and sustain zakat revenue in the future. It also outlines the scholarly disagreements on the permissibility of zakat fund investment and encourages stakeholders to reassess this approach based on sound Shariah governance, transparent policies, and regular monitoring to ensure that such initiatives can support the long-term development of the *asnaf* community without compromising Shariah principles.

Keywords: *Zakat Fund Investment, Istithmar Zakat, Shariah Compliance, Asnaf, LZNK*

ABSTRAK

Pengurusan dana zakat merupakan satu tanggungjawab besar yang menuntut kecekapan serta pematuhan ketat terhadap prinsip Shariah, khususnya dalam menjaga amanah umat Islam dan memastikan hak golongan *asnaf* dipenuhi. Memandangkan cabaran ekonomi seperti pandemik COVID-19, timbul kebimbangan terhadap kelestarian sekiranya institusi zakat hanya bergantung kepada sumbangan masyarakat semata-mata. Sebagai strategi jangka panjang, konsep pelaburan dana zakat (*istithmar zakat*) telah dicadangkan oleh para ulama sebagai satu pendekatan untuk menjana manfaat berterusan kepada asnaf. Namun begitu, isu kebolehlaksanaan dan hukum pelaburan ini masih menjadi perbahasan, terutamanya dari segi pematuhan Shariah. Kajian ini memfokuskan kepada Lembaga Zakat Negeri Kedah (LZNK) dan bertujuan untuk meneroka kemungkinan serta kesesuaian pelaksanaan pelaburan dana zakat daripada perspektif pematuhan Shariah. Kajian ini menganalisis pendirian semasa, dasar serta tahap kesediaan LZNK terhadap pelaburan zakat, di samping menilai sejauh mana amalan tersebut boleh diselaraskan dengan prinsip-prinsip asas Shariah dan keperluan ekonomi masyarakat *asnaf* di negeri Kedah. Dapatan menunjukkan bahawa walaupun pelaburan dana zakat masih belum dilaksanakan di LZNK wujud kesedaran serta perbincangan awal mengenai potensinya. Walau bagaimanapun, beberapa isu kritikal perlu ditangani secara menyeluruh, seperti pemeliharaan tujuan asal zakat, pengurusan risiko, dan keutamaan terhadap keperluan segera golongan *asnaf*. Tuntasnya, kajian ini mengemukakan beberapa cadangan sebagai mekanisme untuk memperkukuh dan menjamin kelestarian pendapatan zakat pada masa hadapan. Kajian ini turut menghuraikan perbezaan pandangan dalam kalangan ulama mengenai pelaburan dana zakat serta menyeru pihak berkepentingan agar menilai semula langkah ini berasaskan kepada tadbir urus Shariah yang mantap, dasar yang telus, dan pemantauan berkala supaya manfaatnya dapat disalurkan secara optimum kepada golongan *asnaf* tanpa menjejaskan prinsip-prinsip Shariah.

.

Kata kunci: *Istithmar Zakat, Pelaburan Dana Zakat, Pematuhan Shariah, asnaf, LZNK*

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Finally, I humbly pray that this work is accepted by Allah as a form of worship and as a means of benefit for others. May He bless everyone involved in this journey, protect their families and grant us all the strength to remain steadfast on the path of knowledge and faith.

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LIST OF ABBREVIATIONS

PBUH	Peace Be Upon Him
AAOIFI	Accounting and Auditing Organization for Islamic Institution
LZNK	Lembaga Zakat Negeri Kedah
SAC	Shariah Advisory Council
SDGs	Sustainable Development Goals
MDGs	Millennium Development Goals
UUM	Universiti Utara Malaysia

CHAPTER ONE:
INTRODUCTION

1.0 Introduction

The economic downturn experienced by the global Muslim community, particularly during the COVID-19 pandemic, has significantly reshaped poverty dynamics across nations. According to the World Bank's 2020 report, the number of urban poor surged dramatically, with 223,300 individuals in Malaysia newly categorized as poor marking a concerning shift from the pre-pandemic economic state. In response to the global poverty crisis, various international innovations have been introduced. Among the most notable is the United Nations' Sustainable Development Goals (SDGs), a successor to the Millennium Development Goals (MDGs), which failed to achieve full effectiveness (Pradhan, P., Costa, L., Rybski, D., Lucht, W., & Kropp, J. P., 2017). The SDGs have since garnered broad international cooperation to realise its 17 primary goals, one of which is eradicating poverty in all its forms.

Aligned with this global mission, national institutions such as Lembaga Zakat Negeri Kedah (LZNK) play a crucial role in alleviating poverty, especially within the Muslim community. However, a major concern has arisen a significant reduction in zakat contributions due to the economic transition of former contributors into *asnaf* (zakat recipients) themselves. This presents a critical dilemma how can zakat institutions remain financially stable when the number of payers decreases while the number of recipients increases. According to *Utusan Malaysia* (8 December 2020), LZNK recorded a decrease of RM 20.213 million in zakat collection compared to 2019. This financial gap is alarming and demands urgent strategies to ensure the sustainability of zakat as an Islamic economic safety net. In light of this, this study emerges as a small yet necessary effort to explore sustainable alternatives for enhancing zakat revenue in Kedah. Investment, or *istithmar*, as defined by *Dewan Bahasa dan Pustaka*, refers to the allocation of capital into business ventures with the expectation of generating profit. From an economic standpoint, investment entails converting money into assets such as equities or properties that are expected to retain value over time and yield income. Contemporary economists further describe investment as a form of financial commitment made to gain long-term returns.

On the other hand, "Zakat" originates from the Arabic term meaning purification, growth, and blessing. It is an obligatory form of almsgiving in Islam and one of the pillars of the religion. Zakat aims to cleanse wealth from selfishness and purify the soul from miserliness (al-Qaradawi, 1997). From a Shariah perspective, zakat involves the distribution of a portion of wealth to eligible recipients (*asnaf*) under defined conditions. This divine economic system seeks to bridge the socio-economic gap between the wealthy and the poor, facilitating equity and communal harmony. The integration of these two concepts zakat and investment forms the basis of the current study. Although traditionally viewed as distinct, modern Islamic finance has increasingly explored the investment of zakat funds (*istithmar zakat*) as a potentially transformative approach. However, this proposal is not without controversy. The permissibility of zakat investment is a subject of ongoing scholarly debate, with divergent views rooted in different interpretations of Shariah principles. Despite the disagreement among scholars, the concept of *istithmar zakat* has gained traction due to its relevance in addressing contemporary economic realities. For an institution like

LZNK, which seeks to protect and empower the *asnaf* community amid rising poverty, such an approach may offer a viable means to enhance zakat revenue, reduce dependency, and increase economic resilience. Scholars have identified that zakat's ineffectiveness as a robust public fiscal instrument is largely due to the inefficiencies within the zakat institutions themselves (Leicester: The Islamic Foundation, 1992) . These bodies often struggle with both enhancing zakat collection and ensuring its proper and impactful distribution.

One major reason behind these shortcomings is the tendency of policymakers to adopt a narrow interpretation of zakat-related principles, which restricts the use of Islamically permissible methods for zakat collection and disbursement. For instance, zakatable items are often confined only to those explicitly mentioned in classical hadiths, despite the emergence of numerous modern forms of wealth and economic activities. Consequently, scholars such as Kahf, Iqbal, and Abu Saud recommend re-evaluating the scope of zakat, including its *nisab* and applicable rates, to align with contemporary wealth structures and improve overall zakat revenue. Despite this study aims to examine the potential of implementing zakat fund investment within LZNK by analysing its Shariah compliance, feasibility, and relevance to the current economic context in Kedah. It is hoped that through this exploration, viable solutions can be proposed to sustain and strengthen the role of zakat in the long term.

1.1 Background of study

The COVID-19 pandemic brought widespread disruption to global economies, affecting not only individuals and businesses but also religious institutions such as zakat authorities. Among the institutions impacted was the zakat organization itself, which experienced a decline in zakat collection compared to previous years. This downturn revealed a pressing need for proactive strategies to sustain zakat revenues, especially since zakat funds are the primary resource for supporting the welfare of the *asnaf* community.

The management of zakat wealth is a heavy responsibility, as it involves fulfilling two major trusts: safeguarding the property of the Muslim ummah given in obedience to Allah, and ensuring the rights of the *asnaf* are upheld. Failure to prioritize either of these dimensions could result in injustice to one of the parties involved. This dual obligation is clearly outlined in the Quran in Surah al-Taubah, verse 60, where Allah SWT specifies the rightful recipients of zakat:

إِنَّمَا الصَّدَقٰتُ لِلْفُقَرَآءِ وَالْمَسٰكِيْنِ وَالْعَامِلِيْنَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوْبُهُمْ وَفِى الرِّقَابِ
وَالْغَارِمِيْنَ وَفِيْ سَبِيْلِ اللّٰهِ وَابْنِ السَّبِيْلِۗ فَرِيْضَةً مِّنَ اللّٰهِ ۗوَاللّٰهُ عَلِيْمٌ حَكِيْمٌ

"Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the stranded traveller – an obligation [imposed] by Allah. And Allah is Knowing and Wise." (Al-Taubah: 60)

To uphold both these responsibilities, this study seeks to revisit the effectiveness of current zakat collection systems and whether they are capable of meeting the rising needs of the *asnaf*. Given the economic strain and the increased number of zakat recipients, relying solely on traditional donations may no longer be sufficient.

In response to this challenge, the idea of zakat investment (*istithmar zakat*) has emerged as a potential innovation. However, such a proposition must be grounded in the objectives of Islamic law (*maqasid al-shariah*) particularly, the *maqasid khassah*, which emphasizes the direct welfare of zakat recipients, over the broader *maqasid ‘ammah*. While many Islamic scholars view the investment of zakat funds as impermissible due to the sacred nature of zakat, there are contemporary scholars who argue that it may be allowed under strict conditions that preserve the interests of the *mustahiq* (eligible recipients).

In principle, the *maqasid al-shariah* framework offers a valuable foundation for addressing contemporary issues in a manner that upholds Shariah compliance while advancing the institutionalization of Islamic moral economics. Islamic economics, as a system, extends beyond mere theological doctrines, it embodies a set of ethical values derived from the Quran and Sunnah that shape all economic interactions within society. It promotes principles such as reciprocity, integrity, collective responsibility, and social justice, emphasizing equitable wealth distribution and the welfare of all individuals in need (Florida: Brown Walker Press, 2010).

The *maqasid* approach provides a moral compass that complements the legal structure of Islamic law. It ensures that legal rulings reflect the ethical spirit of Islam, preventing a rigid or overly literal interpretation of sacred texts from undermining the broader moral objectives found within the Quran and Sunnah (paper presented at the IIUM International Conference on Islamic Banking and Finance: ‘Research and Development: The Bridge between Ideals and Realities’, Kuala Lumpur, 23 – 25 April 2007)). By prioritizing the higher objectives (*maqasid*) of the Shariah in legal reasoning, this methodology enables a more dynamic and values-driven application of Islamic principles.

In the context of zakat fund investment, determining its permissibility should not rely solely on the literal interpretation (*dalālat al-lafẓ*) of specific legal texts. Instead, a comprehensive analysis incorporating the maqasid perspective is essential to critically evaluate its legitimacy and relevance to the public interest. Scholars like Jasser Auda highlight this method as one of the most vital intellectual tools for reform in the Islamic legal tradition(Usul al-Fiqh, 2000). Applying the maqasid framework to emergent financial practices ensures that Islamic law remains responsive, adaptable, and capable of addressing novel challenges while staying true to its foundational values.

In line with this, key to this approach is the principle of justice among all eligible recipients. Imam al-Syafie emphasized that justice in zakat distribution involves preserving the rights of the *mustahiq* while seeking the broader benefit of the Muslim community to the best extent possible (al-Syafie, 1996). Therefore, any investment model must be designed with this ethical framework in mind.

This study is also driven by the author's interest in analyzing fiqh al-muamalat (Islamic commercial jurisprudence) as it pertains to zakat fund investment from a Shariah compliance perspective. Revenue generation through such investments could potentially enhance zakat institutions administrative efficiency and capacity, thus enabling more effective distribution. Moreover, if proven successful, this approach could serve as a model for other Islamic countries.

The study focuses specifically on the Lembaga Zakat Negeri Kedah (LZNK) and aims to provide a thorough analysis of the possibility of implementing zakat fund investment in line with Shariah principles. Fundamentally, the Kedah State Zakat Board (Lembaga Zakat Negeri Kedah, LZNK) operates under the authority of His Royal Highness, D.Y.M.M. Sultan of Kedah Darul Aman, Al-Aminul Karim Sultan Sallehuddin Ibni Al-Marhum Sultan Badlishah. The institution is further supported by a board comprising twelve (12) members:

NAME	POSITION
Dato' Seri Haji Norizan Bin Khazali	Chairman
Dato' Syeikh Zakaria Bin Othman	Secretary
Sahibus Samahah Dato' Paduka Syeikh Haji Fadzil Bin Haji Awang	Board Member
Dato' Syeikh Haji Abd Rahman Bin Haji Abdullah	Board Member
Encik Sofwan Bin Mohd Khatib	Board Member
Tuan Saifulrijal Bin Azhari	Board Member
Tuan Syeikh Haji Ahmad Faisol Bin Haji Omar	Board Member
Dato' Seri Setia Diraja Dato' Paduka Haji Bakar Bin Din	Board Member
Dr. Akli Bin Ahmad	Board Member
Dato' Dr. Haji Abd. Ghani@Zulkifli Bin Haji Zainuddin	Board Member
Profesor Madya Dr. Yusuf Bin Haji Othman	Board Member
Profesor Madya Dr. Muhammad Noor Habibi Bin Hj Long	Board Member

1.2 Problem Statement

The management of zakat funds constitutes a major religious and administrative responsibility, requiring not only operational efficiency but also strict adherence to Shariah principles. This responsibility is central to upholding the trust of the Muslim community and ensuring the protection of the *asnaf*'s rights. In the face of evolving global economic challenges such as the COVID-19 pandemic concerns have emerged over the sustainability of depending solely on public contributions to meet the growing needs of the *asnaf* (World Bank 2021; ISRA 2020).

As a long-term strategy, the concept of zakat fund investment (istithmar zakat) has been advanced by contemporary Islamic scholars as a way to generate sustainable benefits for zakat recipients. This approach aims to maximize the socioeconomic impact of zakat while enhancing the durability of its financial resources. However, debates persist on the permissibility and implementation of such investments, particularly with regard to compliance with Shariah and alignment with the broader objectives of zakat (Qaradawi 2000; Dusuki 2008).

A focused case on the Kedah State Zakat Board (LZNK) reveals that, although zakat investment has not yet been officially implemented, there is growing internal awareness and discourse on its potential. Yet, critical issues remain unresolved chief among them are the preservation of zakat's original purpose, appropriate risk management, and the prioritization of immediate needs of the *asnaf* (LZNK 2022).

More alarmingly, ongoing threats such as rising inflation, economic uncertainty, and natural disasters including floods and pandemics pose significant risks to Malaysia's zakat ecosystem. These conditions are likely to result in a surge in the number of *asnaf* while reducing the number of zakat contributors (*muzakki*) due to declining incomes and financial instability (DOSM 2023; IMF 2023).

If zakat institutions are not adequately prepared with sustainable fund management strategies and Shariah-compliant investment mechanisms, the welfare of the *asnaf* may be compromised, undermining the very objectives of zakat as a tool of socioeconomic justice in Islam. It is therefore crucial to undertake a comprehensive assessment of current policies, institutional readiness, and the feasibility of zakat investment in light of Shariah principles, operational capabilities, and the evolving economic realities affecting the Muslim community.

1.3 Research Question

This research seeks to address the central issue of whether zakat fund investment, as proposed or potentially undertaken by Malaysian zakat institutions, particularly the Kedah State Zakat Board (LZNK), complies with the principles and objectives of Shariah. In doing so, the study aims to explore both the theoretical underpinnings and the practical realities of such investments. Specifically, it intends to answer the following key research questions:

1) What are the conceptual foundations and underlying principles of zakat fund investment according to classical and contemporary Islamic scholarship?
2) How do current zakat fund investment practices comply with Shariah particularly in relation to the objectives (Maqasid) of zakat?
3) How prepared are zakat institutions, specifically LZNK in implementing zakat investment mechanisms and what challenges do they face?

1.4 Research Objective

This research aims to explore and critically analyse the legal and juristic dimensions surrounding the practice of zakat fund investment within the framework of Islamic law. Specifically, the objectives are as follow:

1. To examine the conceptual foundational principles of zakat fund investment in Islamic thought.

2. To analyse zakat investment practices from the perspective of Shariah compliance particularly in relation to Maqasid al-Zakah.

3. To evaluate contemporary institutional practices and the operational readiness of zakat agencies in implementing zakat investment mechanisms.

1.5 The Significance of Study

This study lies in its contribution to the ongoing discourse on the jurisprudential legitimacy and practical implementation of zakat fund investment within the framework of Islamic law. This research not only seeks to address technical administrative issues, but also aims to critically analyse the compliance of such practices with the objectives (*maqasid*) and foundational principles of zakat.

Zakat, as an act of worship and a financial obligation, must be managed with utmost integrity, transparency, and adherence to divine injunctions. Any attempt to innovate or reform the management of zakat such as through investment must therefore be rooted in a sound understanding of *fiqh al-zakah*, classical juristic positions, and contemporary ijtihad. This study contributes by examining the views of classical fuqaha' and modern scholars on the permissibility of investing zakat funds, as well as by evaluating whether such practices serve or deviate from the ultimate aims of zakat, particularly in ensuring the direct benefit and upliftment of the *asnaf*.

Moreover, the research offers practical relevance by assessing the readiness and current policies of zakat institutions particularly LZNK in adopting investment strategies. In light of increasing financial pressures such as inflation, economic downturns, and natural disasters, the number of *asnaf* may increase while the number of *muzakki* potentially declines. Hence, this study addresses an urgent question: can zakat investment offer a sustainable mechanism to secure the future welfare of the *asnaf*, without compromising its Shariah compliance?

By grounding the discussion within both *usul al-fiqh* and contemporary institutional realities, this research hopes to guide policy makers, Shariah committees, and zakat administrators towards a more holistic and principled approach in developing long-term strategies that preserve the sanctity of zakat and protect the rights of its rightful recipients.

1.6 Scope of Study

This study primarily focuses on the legal, juristic, and operational aspects of zakat fund investment in Malaysia, with a particular emphasis on Shariah compliance. The research scope includes an in-depth analysis of classical and contemporary Islamic jurisprudential views (*fiqh*) on the permissibility of investing zakat funds, as well as an evaluation of modern zakat management practices, particularly those employed by the Kedah State Zakat Board (LZNK).

The study is limited to the Malaysian context and does not encompass zakat practices in other Muslim majority countries. While references are made to global discourses for comparative insights, the legal framework, socio-economic setting, and institutional dynamics of Malaysia form the central analytical framework. The research does not attempt to measure the financial performance of zakat investments quantitatively, but instead prioritises qualitative analysis of compliance with Shariah principles and alignment with the *maqasid al-zakah*.

Additionally, the study is limited to institutional zakat investments and does not cover individual-level zakat or waqf-based investment schemes unless they intersect directly with institutional zakat practices. The case study of LZNK represents a purposive choice due to its structured governance and increasing engagement with zakat development discourse.

Given the constraints of time, access, and resources, the research primarily relies on interviews, policy documents, fatwa literature, and published reports from relevant authorities, without a full-scale empirical fieldwork across all states. Nevertheless, the findings are intended to provide a critical framework and ethical guideline that can inform future Shariah-compliant investment models for zakat institutions across Malaysia.

1.7 Definition of Key Terms

Zakat: Zakat is a mandatory act of worship and a financial obligation upon eligible Muslims, aimed at purifying one's wealth and assisting those in need. It is one of the five pillars of Islam and must be distributed among eight specified categories of recipients, as mentioned in Surah al-Taubah (9:60) (Kahf 1995; Qaradawi 1999).

Asnaf: *Asnaf* are the eight groups entitled to receive zakat funds, namely: the poor (*fuqara'*), the needy (*masakin*), zakat administrators (*amilin*), those whose hearts are to be reconciled (*muallaf*), slaves seeking liberation (*riqab*), debtors (*gharimin*), those striving in Allah's cause (*fi sabilillah*), and stranded travellers (*ibn sabil*) (Qaradawi 1999; Dusuki 2008). This classification serves as the primary guide in the distribution of zakat.

Zakat Fund Investment (Isthismar Zakat): Zakat fund investment refers to the practice of utilising collected zakat monies in Shariah-compliant investment activities with the intention of generating sustainable returns to support the *asnaf* either directly or indirectly. This concept has been debated by contemporary scholars, particularly in terms of its permissibility, scope, and impact on fulfilling the immediate needs of *asnaf* (Hasan 2007; Abd Rahman and Ahmad 2011).

Shariah Compliance: Shariah compliance involves adherence to the rulings, principles, and ethical objectives of Islamic law in all aspects of financial and administrative conduct. In the context of zakat, it requires that funds be handled without engaging in prohibited elements such as *riba* (interest), *gharar* (uncertainty), or *maysir* (gambling), and that the distribution remains within the Quranic parameters (Dusuki and Bouheraoua 2011; ISRA 2016).

Maqasid al-Zakah: *Maqasid al-Zakah* refers to the higher objectives and intended outcomes of the zakat institution, such as wealth purification, poverty eradication, social welfare, and equitable economic redistribution. Any strategy involving zakat including investment must preserve these overarching aims (Chapra 2000; Ibn Ashur 2006; Al-Qaradawi 1999).

Zakat Institutions: Zakat institutions are state-sanctioned bodies established to administer zakat collection and distribution in accordance with Islamic law and local legislation. In Malaysia, these institutions function under the respective State Islamic Religious Councils (SIRCs), such as the Kedah State Zakat Board (LZNK), and are entrusted with ensuring the integrity, transparency, and efficiency of zakat management (Mahmood et al. 2014; Abdul Rahman 2021).

1.8 Organization of the Study

This thesis is structured into five main chapters to provide a comprehensive analysis of zakat fund investment in Malaysia from a Shariah perspective.

Chapter one introduces the background of the study, outlines the research problem, objectives, and research questions. It also discusses the significance of the study, scope and limitations, key definitions, and the overall structure of the thesis.

In chapter two, it provides an in-depth review of existing literature related to the concept of zakat, its management, the principles and objectives of zakat investment, and contemporary practices. This chapter includes an analysis of relevant classical and contemporary Islamic juristic opinions, as well as studies on zakat institutions in Malaysia, with particular focus on the Kedah State Zakat Board (LZNK).

Following this, chapter three explains the research methodology adopted for the study. It elaborates on the qualitative research design, data collection methods, and analytical approaches used to examine Shariah compliance and practical aspects of zakat investment. The choice of LZNK as a case study is justified, and the procedures for gathering relevant data are detailed.

Chapter four presents the analysis of findings based on the collected data. It critically assesses the policies, practices, and Shariah compliance of zakat investments conducted by LZNK. The chapter also evaluates how these investment activities align with the objectives of zakat and the needs of the *asnaf* community, identifying challenges and opportunities.

Finally, chapter five concludes the study by summarizing the main findings and discussing their implications for zakat management in Malaysia. It proposes recommendations aimed at improving the effectiveness and Shariah compliance of zakat fund investments, while suggesting areas for future research to further enhance this important field.

CHAPTER TWO:
LITERATURE REVIEW

2.1 Concept of Zakat

Zakat, as a fundamental pillar of Islam, serves as an obligatory act of worship designed to redistribute wealth and foster social equity among Muslims. Classical jurists and modern scholars alike emphasize its dual role: spiritual purification of the individual's wealth and socio-economic justice within the community (Kahf 1995; Chapra 2000). The Quran specifies eight categories of zakat recipients (*asnaf*) in Surah At-Tawbah (9:60), including the poor (faqir), the needy (miskin), those employed to collect zakat, and others, underscoring the multifaceted approach to social welfare embedded in Islamic law (al-Qaradawi 1999).

However, modern interpretations of zakat have broadened its conceptualization. For instance, Khan and Mirakhor (2013) argue that zakat can be an instrument for socio-economic development beyond mere charity, functioning as a tool to empower recipients through productive use of funds. Yet, this raises questions about the balance between traditional understandings of zakat as immediate assistance and newer views advocating long-term investments for sustainable upliftment (Kahf 1995).

Critics have noted the potential tensions between zakat's spiritual objectives and its practical application. As Siddiqi (2006) highlights, the strict legalistic framework surrounding zakat sometimes conflicts with the fluid economic realities faced by contemporary Muslim societies, suggesting a need for adaptive fiqh approaches that maintain Shariah compliance while addressing modern socio-economic challenges.zakat serves as a key mechanism for poverty reduction and social welfare in Islamic governance.

2.2 Management of Zakat Funds

Effective zakat management is pivotal to fulfilling the objectives mandated by Shariah. In Malaysia, zakat institutions operate under different authorities depending on the state; in Kedah, the Sultanate directly oversees zakat administration, highlighting the role of local governance in zakat operations (Mahmood et al. 2014). The organizational structure influences the efficiency, transparency, and accountability of zakat institutions.

Empirical research reveals that while zakat institutions in Malaysia have made progress in digitizing collections and distributions, challenges persist, including data integrity issues and inadequate personnel training (Abdul Rahman 2021). For example, a study by Sulaiman and Aziz (2018) indicates that zakat institutions sometimes suffer from poor coordination between collection and distribution functions, leading to inefficiencies and delays in disbursing aid to the asnaf.

Further critiques concern the lack of robust monitoring and evaluation mechanisms. ISRA's 2016 report stressed the necessity of integrating Shariah governance frameworks within zakat institutions to mitigate risks such as mismanagement or misallocation of funds, ensuring investments and distributions remain within Islamic legal boundaries (ISRA 2016). These institutional weaknesses may undermine public trust, thereby affecting *muzakki* willingness to pay zakat.

2.3 Adequacy of Zakat Funds

The adequacy of zakat funds is an ongoing concern, especially in the context of Malaysia's socio-economic landscape. Economic inflation, natural disasters, and the COVID-19 pandemic have significantly increased the number of eligible *asnaf*, straining zakat resources (Sulaiman 2019). At the same time, economic pressures may reduce the income of *muzakki*, thereby diminishing zakat collection (Ahmad and Hashim 2020).

The dynamic between rising demand and stagnant or declining supply of zakat funds poses serious challenges to the sustainability of zakat-based social welfare programs. As noted by Abdul Rahman and Ahmad (2011), relying solely on public contributions without exploring additional funding mechanisms risks creating deficits that compromise aid quality and coverage.

Moreover, the demographic shift toward urbanization and changing patterns of poverty complicate the identification and classification of zakat recipients (Mohamed 2017). This calls for enhanced zakat data systems and policy reforms to better target resources and optimize fund utilization. Critics argue that zakat institutions must move beyond traditional collection models to incorporate innovative financial strategies that safeguard zakat's social objectives while ensuring fiscal sustainability (Hasan 2007).

2.4 Investment in Islam From Shariah Perspectives

Islam promotes economic activity within ethical boundaries that preserve justice, fairness, and societal welfare. Investment (istithmar) is considered a permissible and even encouraged activity in Islam when it leads to productive outcomes and does not contradict Shariah principles. According to the foundational Islamic economic worldview, wealth is a trust from Allah and must be used responsibly, avoiding exploitation and injustice. The Quran states: “Wealth should not circulate only among the rich” (Quran 59:7), highlighting the need for equitable distribution of resources in society.

From a fiqh standpoint, investment is allowed so long as it avoids major prohibitions, namely riba (interest), gharar (excessive uncertainty), and maysir (gambling). These prohibitions aim to ensure fairness, transparency, and shared risk in financial dealings. Investments must also be in halal activities and not involve industries such as alcohol, gambling, or pork. The concept of maslahah (public interest) is key in Islamic jurisprudence, and any economic initiative including investment must contribute positively to the well-being of society (Kamali 2008).

Permissible contracts in Shariah-compliant investments include musharakah (partnership), mudharabah (profit-sharing), murabahah (cost-plus sale), ijarah (leasing), and salam (forward sale), among others (Usmani 2002). These contracts emphasize ethical behavior, shared risk, and social responsibility. Unlike conventional interest-based investments, Islamic contracts demand a tangible underlying asset or service, avoiding speculative activities. These mechanisms aim to prevent unjust enrichment and maintain socio-economic justice.

In modern Islamic finance, the guiding framework for investments is rooted in the objectives of Shariah (maqasid al-shariah), which include the preservation of religion, life, intellect, lineage, and wealth. Ibn Ashur (2006) emphasized that economic activities must align with these objectives to be considered ethical and valid under

Shariah. Therefore, an investment, though financially beneficial, may still be considered non-compliant if it violates any of these maqasid.

Yusuf al-Qaradawi (1999), in his seminal work Fiqh al-Zakat, stressed that while Islam does not prohibit wealth accumulation or investment, it mandates that such activities must be socially responsible. Investments that exploit others or cause harm to the environment or society at large contradict the essence of Islamic economic ethics.

However, applying these general principles to specific funds such as zakat is a subject of debate. While the permissibility of investment using general wealth is well established, using zakat funds for investment purposes introduces unique challenges. Zakat is a form of ibadah (worship) with strict conditions and designated beneficiaries (*asnaf*). As such, some scholars argue that investing zakat may delay its distribution to those in immediate need, which contradicts the urgency of fulfilling this obligation (El-Gamal 2006).

Nonetheless, contemporary scholars who allow zakat fund investment often argue from the lens of maslahah mursalah (unrestricted public interest) and istislah (consideration of public welfare), provided that the investment yields definite benefits for the *asnaf* and does not hinder their basic needs (Kahf 1995).

Thus, understanding the general Shariah framework on investment is crucial before delving into the specific issue of zakat fund investment. Only by comprehending the broader ethical and legal basis of investment in Islam can scholars and practitioners assess the compliance and validity of zakat-based investments.

2.5 Zakat Fund Investment

The notion of investing zakat funds represents a significant evolution in zakat management, aligning with contemporary financial realities. Investment of zakat funds in Shariah-compliant ventures is proposed as a means to generate continuous income streams that can supplement direct distribution, thereby increasing the overall capacity to assist *asnaf* (Hasan 2007; Dusuki and Bouheraoua 2011).

However, this approach raises complex jurisprudential issues. While some Islamic scholars endorse the investment of zakat funds, provided that the income is utilized according to Shariah guidelines, others caution against the risks involved, including potential delays in aid to *asnaf* and exposure to financial loss (Qaradawi 1999; Siddiqi 2006). For example, the permissibility hinges on strict conditions such as ensuring that zakat capital remains intact and that investments avoid prohibited sectors like gambling, alcohol, and interest-bearing instruments (Dusuki and Bouheraoua 2011).

Moreover, critics like Al-Qaradawi (1999) emphasize the risk of diluting zakat's immediate relief function if investment activities overshadow urgent distribution needs. Abdul Rahman (2021) echoes this concern, highlighting the need for effective risk management frameworks and clear policies to ensure investments do not compromise zakat's core social welfare mandate.

2.6 Analysis of Zakat Fund Investment from the Shariah Perspective

From a Shariah viewpoint, zakat fund investments must conform to Islamic ethical and legal principles, encapsulated by the maqasid al-shariah the higher objectives of Islamic law which prioritize human welfare, justice, and equitable wealth distribution

(Ibn Ashur 2006; Chapra 2000). Investments must avoid riba (usury), gharar (excessive uncertainty), and activities harmful to society, maintaining both the purity and purpose of zakat funds (ISRA 2016).

The development of Shariah-compliant investment products and governance frameworks has made zakat fund investment more viable, but implementation remains complex. Dusuki and Bouheraoua (2011) argue that zakat institutions must establish specialized Shariah supervisory boards and transparent monitoring systems to oversee investment decisions and ensure accountability.

Shubayr's research centers on contemporary Islamic legal perspectives regarding the permissibility of investing zakat funds by the state or its appointed authorities. He outlines both supporting and opposing arguments from modern jurists and ultimately concludes that such investments are permissible if deemed beneficial for the broader Muslim community. However, this permissibility is contingent upon several essential conditions: the investment must comply with Shariah principles, there must be no immediate or urgent needs among the eligible zakat recipients, and a thorough feasibility assessment must be conducted to ensure its potential benefit to society (Shubayr, 2000).

Similarly, Al-Fawzān explores the fiqh-related rulings concerning zakat investment, though his focus diverges slightly from that of Shubayr. He delves into the concept of zakat as an obligatory wealth transfer and investigates its investment legality across various stakeholders involved in its collection and distribution. Al-Fawzān argues that individual zakat payers or their direct representatives are not permitted to invest zakat due to the requirement of immediate disbursement to rightful recipients. Nonetheless, he agrees that investment by state authorities or official institutions may be allowed, provided similar conditions to those highlighted by Shubayr are strictly met (Ṣāliḥ ibn Fawzān,2005).

Taking a more contemporary approach, Muhammad Farah extends the discussion beyond legal rulings to include practical and financial aspects of zakat investment. He examines potential funding sources, advocating for the use of surplus zakat funds or allocations under the category of fi sabilillah to support investment activities. Additionally, he suggests mechanisms such as interest-free loans and advance zakat payments to finance investment initiatives. While Farah's contribution sheds light on modern financial strategies in zakat management, his work appears to give limited focus to the actual implementation and operational realities of such investments (Farah,A.F.M., 1997).

Thus far, there is only one comprehensive academic study on zakat investment in Malaysia, namely a dissertation entitled *"Pelaburan Zakat di Malaysia: Kajian di Baitulmal Majlis Agama Islam Wilayah Persekutuan"* by Ahmad bin Saleh. This research focuses specifically on zakat investments in financial instruments and subsidiary entities carried out by the Baitulmal Department of the Federal Territory Islamic Religious Council (MAIWP) prior to 1998. The author limits his analysis to monetary-based investments, excluding initiatives that offer socio-economic benefits without direct financial returns. The study also highlights MAIWP's difficulty in pursuing real estate ventures due to financial constraints (Ahmad Salleh, 1999).

Beyond this early work, most literature on zakat investment in Malaysia is scattered across journal articles and seminar papers, often limited to descriptive studies of specific institutional practices and investment types. However, more recent case studies, including those on the Kedah State Zakat Board (LZNK), reveal a gradual shift toward implementing structured, Shariah-compliant investment strategies. These studies highlight notable progress while also underscoring persistent challenges such as a lack of internal expertise and organizational resistance (Abdul Rahman, 2021). Moreover, efforts to balance long-term sustainability with the pressing economic needs of the asnaf, particularly during crises such as inflation or pandemics, have emerged as a recurring concern (Sulaiman, 2019).

Numerous studies have approached zakat investment from an economic perspective, typically emphasizing its financial rationale and socio-economic benefits. These works highlight how strategic investment of zakat funds can play a crucial role in improving the living standards of the poor and needy (*asnaf*), thereby contributing to broader goals of poverty alleviation and economic empowerment within the Muslim community.

2.7 Conceptual Framework of the Study

This study adopts a conceptual framework derived from the intersection of classical Islamic jurisprudence and contemporary approaches to Islamic finance and zakat management. As a qualitative inquiry, the framework is designed not to test hypotheses but to provide a lens through which the feasibility, ethical alignment and Shariah compliance of zakat fund investment can be examined within institutional contexts in Malaysia. The conceptual framework integrates four key domains:

1. <u>Zakat as Worship and Socio-Economic Mechanism</u>

   Zakat is fundamentally a religious obligation (*ibadah*) intended for the purification of wealth and spiritual upliftment. Yet, it also functions as a redistributive tool to alleviate poverty and promote social justice. This dual nature of zakat forms the base of the framework while zakat must be distributed to eligible recipients (*asnaf*) as prescribed in Surah al-Tawbah (9:60), modern scholars argue for its role in empowering the poor through productive means. Thus, the tension between immediate relief and long-term empowerment underpins the need for contextual interpretation.

2. <u>Shariah-Compliant Investment Principles</u>

   Islam permits investment activities that avoid *riba* (interest), *gharar* (excessive uncertainty) and *maysir* (gambling) while ensuring risk-sharing and ethical conduct. Permissible contracts such as *mudharabah, musharakah, murabahah*, and *waqf*-based instruments serve as viable channels for Shariah-compliant investment. When applied to zakat funds, these contracts must be carefully scrutinised to avoid delaying disbursement or exposing funds to undue risk. Hence, the framework uses investment principles not only as financial tools, but also as mechanisms that must align with Shariah integrity.

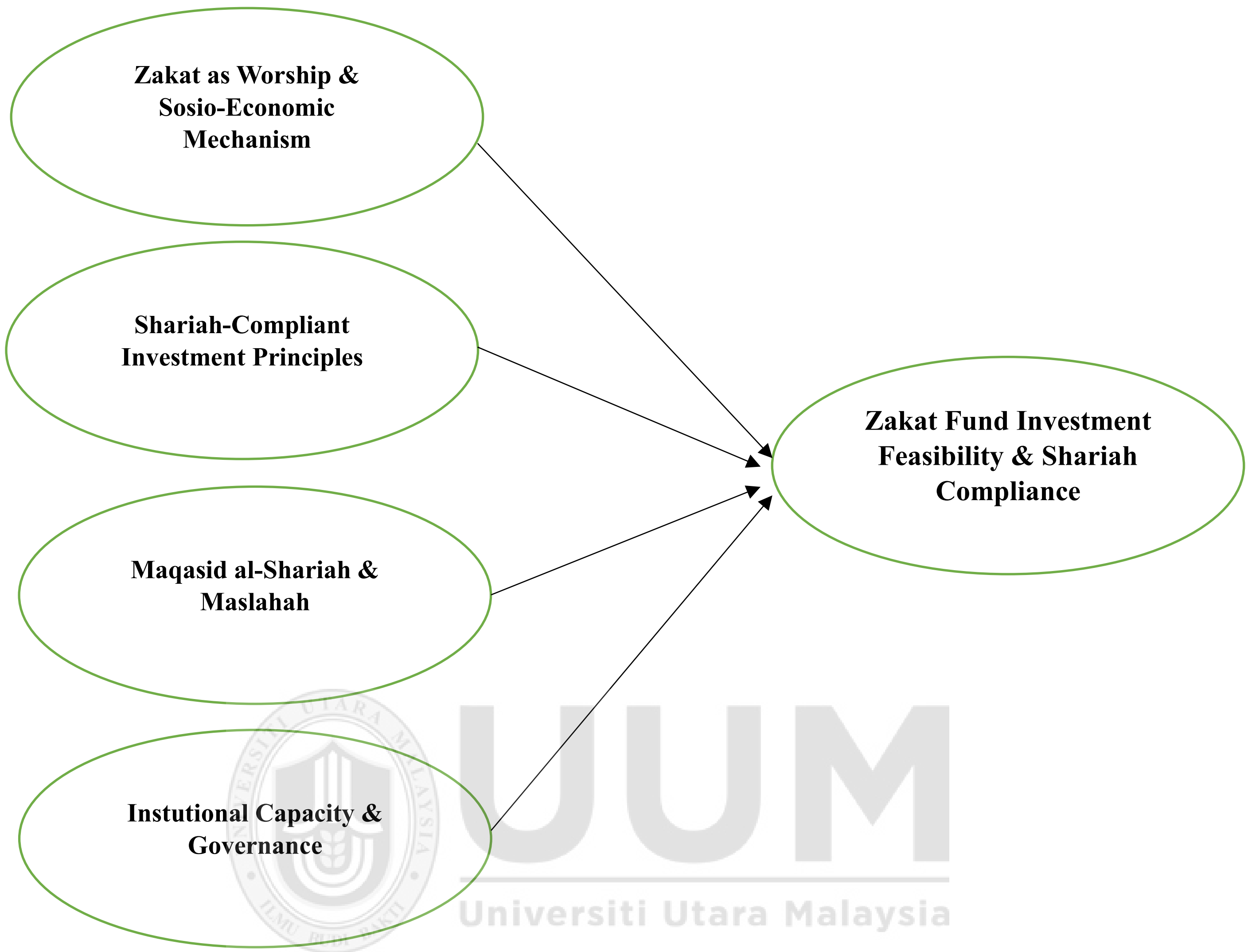
3. *Maqasid al-Shariah* and *Maslahah*

   The higher objectives of Islamic law (*maqasid al-shariah*) such as the preservation of wealth (*hifz al-mal*), life (*hifz al-nafs*), and faith (*hifz al-din*) provide an evaluative filter within the framework. The concept of *maslahah mursalah* (unrestricted public interest) is employed to assess whether investing zakat funds can produce societal benefit without breaching its sacred intent. This perspective is essential for accommodating contextual realities such as inflation, rising numbers of *asnaf* and institutional constraints.

4. Institutional Capacity and Governance

   The final domain addresses the organisational and policy readiness of zakat institutions. Literature reveals that while some states have progressed in adopting digital systems and risk governance others face internal resistance, lack of expertise or absence of Shariah-compliant investment models. The framework thus considers how institutional governance including Shariah advisory boards, internal policies and regulatory frameworks influence the implementation of zakat fund investment.

These four conceptual framework interact holistically to guide the study's analysis of how zakat institutions particularly in Kedah can implement zakat fund investment in a way that preserves its religious foundations while enhancing socio-economic outcomes.



2.8 Summary

This chapter has explored the essential scholarly and theoretical foundations surrounding the investment of zakat funds from the perspective of Islamic jurisprudence. The review began by outlining the fundamental concept of zakat, its objectives, and its role in socio-economic justice within Islamic societies. It then examined the management of zakat funds, particularly focusing on institutional practices and the growing challenges in ensuring efficient and transparent disbursement. A key issue identified was the adequacy of zakat collection in addressing the persistent and, at times, increasing needs of the *asnaf*, particularly in light of economic volatility and external shocks such as pandemics and inflation.

The literature also discussed the notion of investment (*istithmar*) in Islam, establishing its permissibility and framework within Shariah when aligned with ethical, social, and contractual guidelines. This included a discussion on the guiding principles of *maqasid al-shariah*, as well as permissible financial instruments. This provided the necessary jurisprudential background to critically assess the controversial topic of zakat fund investment.

Finally, the review addressed the emerging discourse on the permissibility of investing zakat funds. While classical jurists were cautious, contemporary scholars have presented nuanced positions, especially when such investments can ensure long-term and sustainable benefits to the *asnaf*. The key issue remains whether these investments fulfill the urgent obligation of zakat and safeguard its sanctity as an act of worship. This sets the stage for the next chapter, which will examine how these theoretical debates apply in practical contexts, with a particular focus on the policies, strategies, and Shariah-compliance considerations of zakat institutions in Malaysia.

CHAPTER THREE:
METHODOLOGY

3.0 Introduction

This chapter discusses the methodology adopted in examining the Shariah compliance and practical application of zakat fund investment, using a case study of the Kedah State Zakat Board (LZNK). Anchored in a qualitative research framework, this chapter illustrates how data were collected, analyzed, and interpreted to generate insights about the practice of zakat investment in Malaysia. Given the Islamic nature of the topic, the study integrates traditional fiqh (Islamic jurisprudence) analysis with modern qualitative approaches to generate a holistic understanding.

3.1 Research Design

This study adopts a qualitative research design to investigate the Shariah perspectives and institutional readiness regarding the investment of zakat funds in Malaysia, focusing specifically on the Kedah State Zakat Board (Lembaga Zakat Negeri Kedah, LZNK). The qualitative approach is appropriate for this study as it allows the researcher to explore the legal, ethical, and administrative complexities surrounding zakat investment through the lived experiences, expert opinions and interpretive reasoning of key stakeholders.

The study is exploratory in nature and uses a case study strategy. LZNK is selected as the case institution due to its active role in zakat administration in the state of Kedah. The case study enables the contextualization of findings within an operational zakat institution, offering practical insights on how zakat investment is viewed, deliberated, and potentially implemented.

A central feature of this research design is the use of semi-structured interviews, which allow flexibility in questioning while still focusing on the main objectives of the study. This method is well-suited for topics related to Islamic law (*fiqh*), where scholarly interpretations and institutional practices must be critically examined. The study seeks to uncover how zakat investment is evaluated in light of *maqasid al-shariah*, the principles of *maslahah* and the responsibilities of the *amil* (zakat administrator).

3.1.1 Type of Study

This study is conducted using a qualitative approach, which involves direct interaction with social realities in daily life. Unlike the quantitative approach that is grounded in statistical measurements, qualitative research is more concerned with meaning-making and interpretive analysis. According to Creswell and Creswell (2017), qualitative research encompasses various sub-approaches including narrative research, phenomenology, grounded theory, ethnography, and case study all of which are suitable for exploring human behavior and experiences.

Aspers and Corte (2019) define qualitative research as an iterative process aimed at enhancing understanding through the generation of new, significant distinctions. This is achieved by close engagement with the phenomenon under study.

In the context of this study, a qualitative design is appropriate for exploring the complex interplay of fiqh-based principles and institutional practices surrounding zakat fund investment *(istithmar zakat*). Specifically, the study aims to understand how zakat institutions conceptualize and implement investment mechanisms and whether such practices are compliant with *maqasid al-shariah*. Quantitative tools are insufficient for such a study, as they cannot capture the depth of scholarly interpretations, ethical concerns, and institutional governance involved.

Moreover, this design allows for targeted sampling among practitioners, Shariah scholars, and zakat administrators, thus improving efficiency and reducing costs. The strength of the qualitative approach lies in its ability to investigate intangible data such as values, beliefs, and reasoning that are crucial to Islamic legal research. Bhandari (2020) also emphasized that qualitative research provides in depth understanding of how individuals experience, interpret, and respond to their socioreligious environment, making it ideal for this study.

3.2 Data Collection Methods

In constructing the conceptual framework for zakat investment, this study adopts a library-based research approach, drawing extensively from sources in both Islamic jurisprudence and Islamic economics. The main legal references are derived from the Qur'an and Hadith, as interpreted and codified by classical jurists in various works of fiqh. In addition, tafsir (Qur'anic exegesis) and hadith commentaries are consulted to verify the authenticity and relevance of these texts to the context being studied.

While the theoretical foundation of this research is grounded in classical and contemporary literature, the empirical dimension is addressed through qualitative fieldwork. In order to gain practical insights and assess the real-world implementation of zakat fund investment, primary data collection is conducted using semi-structured interviews.

The primary method of data collection is semi-structured interviews. In qualitative research, interviews constitute a primary method for gathering data. As noted by Adhabi and Anozie (2017), interviews serve as the cornerstone of qualitative inquiry, enabling researchers to obtain meaningful insights through direct engagement with participants. This technique involves a structured yet flexible process in which researchers pose targeted questions to elicit detailed responses, interpretations, and reflections from informants who often hold subject matter expertise or first-hand experience relevant to the research topic. This method allows for open-ended responses while ensuring that key themes related to the research questions are addressed. Interviewees include:

- Shariah scholars with expertise in zakat and Islamic finance,
- Senior officers at LZNK involved in policy and finance,
- Academicians and researchers in Islamic jurisprudence and economics.

The interviews are conducted in person or via online platforms, depending on the availability and preferences of participants. Each interview session lasts approximately 30 to 60 minutes and is conducted in either Malay or English, based on the respondent’s comfort. Interviews are recorded (with permission) and transcribed for analysis.

In addition to interviews, secondary data sources such as fatwas, annual reports, internal policy documents, and academic publications are used to supplement the data and triangulate the findings.

3.3 Interview Protocol and Question Development

The interview protocol is developed in alignment with the objectives of the study. The questions are designed to be open-ended and cover several key themes:

1. Understanding of zakat investment from a shariah perspective.
2. Views on the permissibility and conditions for investing zakat funds.
3. Institutional policy or readiness for zakat fund investment.
4. Challenges and risks associated with investment of zakat.
5. Recommendations for Shariah-compliant mechanisms for investment.

The protocol is pre-tested with a scholar in Islamic finance to ensure clarity, neutrality, and appropriateness in terminology. Participants are also given a brief overview of the study before the interviews to ensure informed participation.

3.4 Sampling

This study uses purposive sampling, targeting individuals who possess specific knowledge or experience related to the topic. The inclusion criteria include:

- Recognized expertise in Islamic jurisprudence or zakat management.

- Current or past involvement in LZNK's decision-making processes.
- Willingness to participate and share informed opinions.

A total of 4 participants are selected to ensure diversity in views while maintaining depth of analysis. The sample is small but sufficient for qualitative analysis where the goal is depth rather than breadth. Researcher conducted interview with the practitioners who have expertise in Islamic banking and finance which are:

1. Prof Madya Dr. Adi Anuar bin Azmin is a Senior Lecturer at the Faculty of Business and Communication, Universiti Malaysia Perlis (UniMAP). With an academic foundation and professional experience in Management, Ethics, Corporate Social Responsibility (CSR), Project Management, and Organizational and Human Resource Development. He is highly regarded for his interdisciplinary approach in linking corporate strategies with social and ethical imperatives in Malaysia's economic and religious institutions. His expertise lies in the intersection of organizational behavior, ethical leadership, and sustainable economic development. His involvement in research concerning ethical and responsible business practices is particularly valuable in the context of zakat governance, where moral accountability and social justice are foundational elements.
2. Dr. Muhammad Anas bin Ibrahim is a Lecture of Muamalat, MARA University of Technology Malaysia (UITM), Dr. Muhammad Anas Ibrahim is a senior lecturer at Universiti Teknologi MARA (UiTM) and is actively involved in research and publications related to Islamic finance and zakat. He holds a strong academic background in Shariah and Islamic Finance and has authored numerous scholarly

articles focusing on zakat management in Malaysia. His research interests include Islamic legal theory, zakat governance, and the application of Shariah principles in contemporary financial practices. His expertise in this field makes his insights highly valuable to this study, particularly in understanding the investment of zakat funds from a Shariah perspective.

3. Mr Mohamad Firdaus bin Sudin as the Head of the Shariah Management and Dakwah Division at the Kedah State Zakat Board (Lembaga Zakat Negeri Kedah, LZNK). His active role in the industry and history of being well-acquainted with the theoretical and applied side of zakat administration puts him in an excellent position to comment on the frameworks, difficulties, and possibilities of zakat fund investments from a Shariah and institutional perspective. Accordingly, we were able to identify him as a relevant and reliable participant in this study.
4. Mr Hazwan Syah Niezam bin Abdul Haniff as the Zakat officer of Padang Terap at Lembaga Zakat Negeri Kedah, LZNK. He is directly involved in the operational management of zakat collection and distribution at the district level. With hands-on experience in the implementation of zakat programs and policies, Mr. Hazwan provides practical insights into the management of zakat funds, particularly in terms of their usage and potential investment from a Shariah-compliant perspective. His role offers a valuable grassroots view on how zakat is handled at the district level in Kedah.

The interview protocol is developed in alignment with the objectives of the study. The questions are designed to be open-ended and cover several key themes:

- Understanding of zakat investment from a Shariah perspective.
- Views on the permissibility and conditions for investing zakat funds.
- Institutional policy or readiness for zakat fund investment.
- Challenges and risks associated with investment of zakat.
- Recommendations for Shariah-compliant mechanisms for investment.

The interviews are conducted in person or via online platforms, depending on the availability and preferences of participants. Each interview session lasts approximately 30 to 60 minutes and is conducted in either Malay or English, based on the respondent's comfort. Interviews are recorded (with permission) and transcribed for analysis.

3.5 Data Analysis

Data from the interviews are analysed using thematic analysis. This involves reading and coding the interview transcripts, identifying recurrent themes, and interpreting the data considering the research objectives and Shariah principles.

Thematic categories are developed both inductively (emerging from the data) and deductively (based on the literature and objectives). NVivo or manual coding may be used depending on the volume of data. Key themes include: Shariah legitimacy, institutional mechanisms, risk concerns, priority to *asnaf*, and policy readiness.

The analysis pays close attention to the consistency or divergence in respondents' views, especially between scholars and institutional actors. The findings are interpreted through the lens of Islamic jurisprudence and zakat governance theory.

3.6 Limitations of the Study

There are several limitations to this study. Firstly, the study is limited to one state zakat institution (LZNK), and thus the findings may not be generalizable to all zakat boards in Malaysia. Secondly, as the study relies heavily on interviews, the results are dependent on the availability, openness, and reliability of participants.

Thirdly, there may be variations in scholarly interpretations of Shariah principles regarding zakat investment. This could lead to conflicting perspectives that require nuanced analysis. Lastly, since the concept of zakat investment is still emerging in practice, there may be a lack of fully developed institutional frameworks or documented policies to analysed.

Despite these limitations, the study provides in-depth qualitative insights into a critical and evolving area of zakat governance and offers recommendations that could inform policy and further research.

3.7 Reliability and Validity of Data

Textual information that does not follow a predefined structure and is difficult to convert into numerical or statistical formats, as is common in quantitative research, makes up qualitative research data. Strict validation procedures must be used to guarantee the accuracy and reliability of such data before analysis. Iksan et al. (2016) state that there are six methods that can be used to prove the validity and dependability of qualitative data:

i. The process of triangulation
ii. Long-term involvement

iii. Member verification

iv. Peer review

v. Audit trail

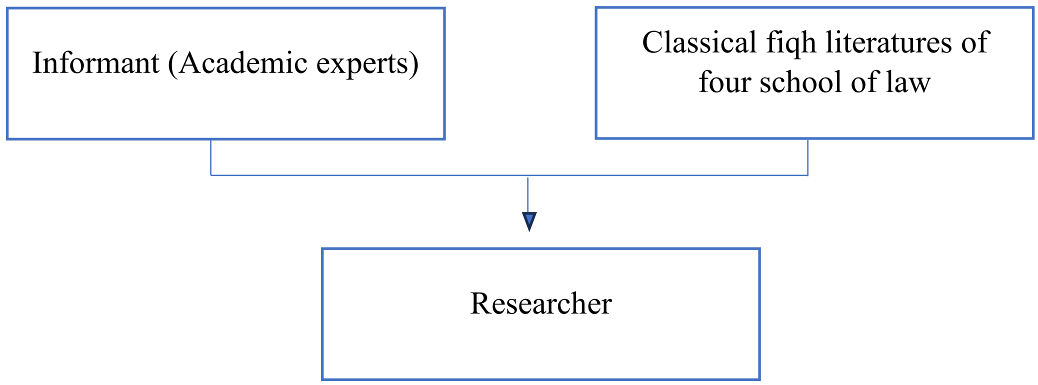
vi. Resolving the bias of researchers

Triangulation, a technique that is well known for boosting the legitimacy and dependability of qualitative findings, was used by the researcher for this investigation. The integration of several approaches or data sources to investigate a single phenomenon is known as triangulation. According to Jonsen and Jehn (2009), "multiple operationalism" is a calculated tactic used to improve a study's internal validity. Similar to this, Coll and Chapman (2000) stress that triangulation entails gathering information from several viewpoints and comparing it to one another in order to evaluate the veracity of individual reports.

Within-method the triangulation method was used to apply triangulation in this study. Data from interviews about istithmar zakat (zakat investment) had to be cross-checked against knowledge from traditional Islamic jurisprudential sources that represented the four main madhahib (schools of thought), as well as professional judgments from regional scholars who specialize in Islamic banking and finance. The researcher was able to generate a more comprehensive and nuanced understanding of the subject by contrasting and comparing findings from these various sources, guaranteeing alignment with theoretical and practical frameworks.

Inaccuracies between data sources that surfaced were significant markers of potential shortcomings in data collection or interpretation. This procedure not only improved the findings dependability but also provided important new information about areas that needed more research.

The proposed method triangulation procedure used in this study is shown in Figure 3.1 below.



3.8 Data Analysis Technique

After conducting both written and audio interviews, the researcher took a number of actions to conduct a methodical analysis of the data. These procedures included data confirmation, analysis, coding, and transcription. Reading the transcribed texts and listening to the audio recordings several times were both part of the transcription process. The researcher was able to thoroughly review the material and develop a deeper comprehension of the topic thanks to this iterative approach.

Data coding came next after transcription. During this critical stage, keywords or important phrases were found in the data and extracted. These were then utilized as codes to classify and arrange the textual data. Since it makes it possible to find patterns and themes pertinent to the study's goals, coding is regarded as a basic component of qualitative data analysis.

The information was then examined and interpreted. To make sure the codes were consistent and pertinent to the research questions, the researcher organized them into meaningful themes and concentrated on reoccurring similarities throughout the dataset. Data confirmation was the last step, which was done to make sure the results were reliable and accurate. In order to confirm the accuracy of the data and preserve its general quality, this was accomplished by re-examining the transcripts and coding scheme.

3.9 Summary

This chapter has detailed the methodological framework adopted to explore the Shariah perspective and practical implementation of zakat fund investment (istithmar zakat), with a focus on the Kedah State Zakat Board (LZNK). A qualitative research design was employed to enable in-depth exploration of juristic, ethical, and institutional aspects that are not easily captured through quantitative methods. Semi-structured interviews served as the main instrument for data collection, allowing for expert insights and open-ended discussions.

Purposive sampling was used to select knowledgeable informants from relevant academic and industry backgrounds. The data collection process included transcription, thematic coding, and triangulation with classical fiqh literature and expert opinions to ensure the reliability and validity of findings. This comprehensive approach provides a strong foundation for analyzing the legal and practical considerations of zakat investment in the next chapter.

CHAPTER FOUR:
RESULTS AND DISCUSSION

4.0 Introduction

In Malaysia and around the Muslim world, the investment of zakat funds is becoming a more important topic of discussion. The main reason for this is that the decision regarding the investment of zakat funds is not stated explicitly in the text (nas). One of the primary causes of dispute is that the distribution of zakat to the eligible receivers (*asnaf*) may be delayed when a zakat institution serves as a trustee to invest the zakat monies. Zakat must, however, be disbursed immediately and without justification.

According to Ibn Battal, who was quoted by al-Shawkani in Nayl al-Awṭar, this concern is reinforced by the idea that any act of goodness should be performed right away because there are always challenges and impediments, death cannot be prevented, and delaying is not a virtue. In addition to relieving oneself of religious obligations, timely zakat payment also meets immediate necessities, prevents blameworthy delay, gains the bless of Allah, and quickly eliminates sins. In a hadis, the Prophet Muhammad (PBUH) stated:

كُنْتُ خَلَّفْتُ فِي الْبَيْتِ تِبْرًا مِنَ الصَّدَقَةِ، فَكَرِهْتُ أَنْ أُبَيِّتَهُ فَقَسَمْتُهُ

"I left a piece of gold (or silver, not yet minted into dinar or dirham) in my house that was given as zakat. I disliked letting it remain overnight in my home and thus I must distribute it immediately." (al-Bukhari, 1/442 no 1430)

This hadis clearly states the prohibition of delaying zakat distribution once a responsible institution has collected it. However, from another dimension, this issue must be examined more broadly through the lens of *maqasid* (higher objectives of Shariah) and contemporary needs. In line with the objective of *Hifz al-Mal* (preservation of wealth), zakat institutions should not merely focus on collection, but also on growing zakat funds so they can be maximally utilised by the ever-increasing number of *asnaf*. Allah says in Surah al-Nisa:

وَلَا تُؤْتُوا السُّفَهَآءَ اَمْوَالَكُمُ الَّتِيْ جَعَلَ اللّٰهُ لَكُمْ قِيٰمًا وَّارْزُقُوْهُمْ فِيْهَا وَاكْسُوْهُمْ وَقُوْلُوْا لَهُمْ قَوْلًا مَّعْرُوْفًا

"And do not entrust those who are weak of understanding with your wealth which Allah has made a means of support for you, but provide for them with it and clothe them and speak to them kindly." (Quran: 5)

This verse warns against entrusting wealth to individuals who lack sound judgment, as it may be misused or squandered. According to informants, there are cases where zakat aid given to *asnaf* was lost due to their poor financial management skills. The effort to invest part of the surplus zakat funds would support economic growth and the *asnaf* could benefit from the profits gained from Shariah-compliant investments. In this way, the amount received by the recipients would increase, as they would obtain both zakat and a share of the investment returns. However, a deeper study of scholarly opinions reveals two schools of thought those who prohibit such investment, and those who permit it highlighting an ongoing debate on the matter.

4.1 Permissibility and Prohibition of Zakat Fund Investment

Investment is not a new matter that needs to be deliberated upon, as its rulings and issues have long been discussed by Islamic jurists (fuqaha) and economists. In general, scholars agree that the investment of wealth is permissible (mubah) in Islamic law, as long as it follows the established Shariah guidelines. This is because anything that brings benefit and goodness and has the potential to generate returns is permissible to be invested. Wealth should not be left idle without being utilized for productive purposes, as doing so may lead to waste or harm and indeed, Allah does not like harm or destruction (Qa'lah, 2000:153).

However, regarding the investment of zakat funds, scholars differ in their opinions depending on the nature of the investment undertaken. Broadly, there are two main forms of zakat fund investment: first, investments managed directly by the zakat recipients (*asnaf*), and second, investments carried out by zakat institutions or baitulmal.

4.1.1 Investment of Zakat Funds by *Asnaf*

Islamic jurists (fuqaha) unanimously agree that once zakat funds have been distributed and received by the *asnaf* (eligible recipients), the ownership and rights to that wealth are fully transferred to them. As such, they are free to use it in any manner they see fit, including investing it as capital or utilizing it for other purposes (Muhammad Uthman Syubayr, 1998:506).

Ibn Nujaym (1999:299) stated that ownership of wealth may arise from various sources, including *mahar* (dowry), *khulu*ʿ (compensation for divorce), inheritance, gifts, charity, wills, endowments (*waqf*), war spoils, reviving abandoned land, and others. In this context, scholars of the Syafie school are of the opinion that for the last four categories of zakat recipients namely, those in bondage (*riqāb*), those in debt (*al-gharimīn*), those striving in the cause of Allah (*fī sabīlillāh*), and wayfarers (*ibn al-sabīl*) the zakat distribution must be specifically allocated to them.

Nevertheless, the Syafie jurists unanimously allow the *asnaf* to invest the zakat funds they have received. Specifically, they permit a *mukātab* (a slave who has entered into a contract to purchase his freedom) to engage in business using zakat wealth granted to him, with the aim of generating profit to fulfill the conditions of his contract. This permissibility is not subject to scholarly dispute among Syafie jurists (al-Nawawī, 1995:189).

Al-Nawawī (1995:196) further emphasized that the Syafie school holds the view that zakat recipients are at liberty to use the funds granted to them in a productive manner, including investment, provided that such usage aligns with the objectives of Shariah and brings benefit to the individual without violating the principles of zakat. Imām al-Nawawī (1995:196) also stated that scholars Syafie school of thought:

يجوز للغارم أن يتجر فيما قبض من سهم الزكاة إذا لم يف بالدين ليبلغ قدر الدين بالتنمية

"It is permissible for a debtor (*gharim*) to engage in business using zakat funds received with the intention of generating profit to facilitate the repayment of his debt."

Based on these views, the investment of zakat funds by *asnaf* is not a matter of juristic dispute. Scholars generally agree on its permissibility as the zakat funds received have become the full property of the recipients. Consequently, their usage including for investment purposes is a matter of personal discretion, depending on the recipient's financial literacy and management skills, whether they choose to invest the funds for long-term benefit or use them for immediate needs.

4.1.2 Investment of Zakat Funds by Zakat Institutions or Baitulmal

The zakat funds that have been collected from the *muzakki* (zakat payers) and accumulated by the *amil* (zakat administrators) are not immediately distributed to the *asnaf* (eligible recipients). Instead, these funds are first invested by the zakat institution or baitulmal in an effort to generate greater profit. Regarding this practice, contemporary scholars (*fuqaha'*) hold differing views on the permissibility (*hukm*) of investing zakat funds by zakat institutions or baitulmal. These views are broadly divided into two main positions:

i. <u>Investment of Zakat Funds is Not Permissible</u>

According to this perspective, the act of investing zakat funds by zakat institutions or *baitulmal* is not permissible (*lā yajūz*). Among the contemporary scholars who uphold this view are Dr. Wahbah al-Zuḥaylī, Dr. ʿAbdullāh Nāṣih ʿUlwān, Dr. Muḥammad ʿAṭāʾ al-Sayyid, Shaykh Muḥammad Taqī al-ʿUthmānī, Shaykh Tujānī

Ṣābūn Muḥammad, and Shaykh Ādam Shaykh ʿAbdullāh ʿAlī ʿAbdullāh (Majmaʿ al-Fiqh al-Islāmī, 1987: 311–406). Their argument is based on several key indicators and legal reasoning:

a) Contradiction with Nas and the Consensus of Scholars Due to Delay in Distribution

Dr. Muḥammad ʿAṭāʾ al-Sayyid (1987:383) stated that:“ The use of zakat funds for investment in projects contradicts divine stipulations. It opposes the explicit texts of the Quran and Hadis and undermines the very spirit of the Shariah.”

The Islamic Scholars have addressed this issue by clarifying that the obligation to promptly discharge zakat lies primarily with the zakat payer, not the governing authority. Once the zakat has been paid and handed over to the state or its appointed agents, the majority of scholars (jumhūr al-ʿulamāʾ) permit a delay in its distribution if there is a justified need. This view is supported by a ḥadīth narrated by Anas ibn Mālik, which indicates that the Prophet ﷺ did not always distribute zakat immediately upon collection, thereby allowing for administrative flexibility in managing the funds:

غَدَوْتُ إِلَى رَسُولِ اللَّهِ صلى الله عليه وسلم بِعَبْدِ اللَّهِ بْنِ أَبِي طَلْحَةَ لِيُحَنِّكَهُ، فَوَافَيْتُهُ فِي يَدِهِ الْمِيسَمُ يَسِمُ إِبِلَ الصَّدَقَةِ.

"I came one morning to the Messenger of Allah (PBUH) carrying ʿAbdullāh ibn Abī Ṭalḥah for him to perform the *taḥnīk*. I found the Prophet (SAW) with an iron branding mark in his hand, which he used to brand the bodies of livestock, marking camels designated for zakat."

This hadis demonstrates that it is permissible to delay the distribution of zakat, as otherwise, the Prophet (PBUH) would not have needed to mark the camels if they were to be distributed immediately. It is also permissible for the state authority to delay the disbursement of zakat to the recipients if there is a valid need or public interest. The Maliki school permits delaying the distribution of zakat until the next *ḥawl* (zakat cycle), based on the ijtihād (independent reasoning) of the ruler who is considered the representative (*wakīl*) of the *asnaf* and is entrusted with ensuring their welfare (al-Ḥaṭṭāb, 1978:50).

b) Delay in Ownership Transfer

Sheikh Ādam Sheikh ʿAbdullāh ʿAlīyy (1987:352) also argued that it is not permissible for zakat funds to be invested. He reasoned that such investment may lead to the loss or destruction of zakat wealth and causes a delay in distributing funds to those rightfully entitled to them.

This view is also supported by Sheikh ʿAbdullāh Nāṣih ʿUlwān (1986:154), who affirmed:

وبناء على رأي الجمهور وما ذكره الأئمة الثقات أن استثمار أموال الزكاة في مشاريع استثمارية تجارية لا يجوز إذا وجد في المجتمع محاويج ومستحقون لأن هذا الاستثمار يؤخر إيصال الزكاة إلى مستحقيها من ناحية، وقد تتعرض الأموال الزكوية إلى الهلاك بسبب الخسارة من ناحية أخرى.

"Based on the opinion of the majority of scholars and the authoritative statements of reputable jurists, it is impermissible to invest zakat funds in any kind of project so long as there are still *asnaf* who are eligible for and in need of zakat. This is because such investment leads to delays in distribution and may cause the destruction or loss of zakat wealth."

This opinion centers around the legal requirement of *tamalluk* (ownership) by the recipients. Some scholars argue that immediate distribution is not obligatory if there is a justified need. Others, however, permit spending zakat wealth for the benefit of *asnaf* without transferring actual ownership. For example, spending zakat funds to purchase and free slaves, or to cover travel expenses for the *ibn al-sabīl* (stranded traveler). In such cases, the benefit is provided directly, without transferring ownership (Muḥammad ʿUthmān Shubayr, 1998:525).

c) High Administrative Costs Reduce Zakat Wealth

This objection is based on the Quranic injunction in Surah al-Taubah, verse 60, which specifies that each category of *asnaf* is entitled to their rightful share. Excessive administrative or operational costs associated with investment activities may reduce the portion meant for the *asnaf*.

According to Muḥammad ʿUthmān Shubayr (1998:525), these expenses are not to infringe upon or diminish the zakat entitlements of the beneficiaries.

d) Zakat Institutions Are Trustees, Not Owners

Sheikh Ādam Sheikh ʿAbdullāh ʿAlīyy (1987:354) further maintained that zakat institutions or *baitulmal* have no legal authority to invest or dispose of zakat funds at their discretion, as they are merely trustees (*amānāh holders*) of the funds. However, this opinion is rebutted by scholars who permit the use of zakat funds in situations of necessity. Jurists from the Maliki, Syafie, and Hanbali schools have all allowed the sale or use of zakat property in emergencies (Muḥammad ʿUthmān Shubayr, 1998:525). Imām al-Nawawī (1995:151) stated:

لا يجوز للإمام ولا للساعي بيع شيء من مال الزكاة من غير ضرورة ، فإن وقعت ضرورة بأن وقف عليه بعض الماشية أو خاف هلاكه أو كان في الطريق خطر ، أو احتاج إلى رد جبران ، أو إلى مؤنة النقل ، أو قبض بعض شاة ، وما أشبهه جاز البيع للضرورة

”The obligation to promptly discharge zakat lies with the zakat payer, not the state authority. Once zakat is paid and received by the ruler or his appointed agent, the majority of Islamic scholars allow for delayed disbursement if justified.”

This is supported by a narration from Anas ibn Mālik, in which it is indicated that such delays were accepted during the Prophet's time, especially for administrative or logistical reasons.

ii. <u>The Permissible View on Zakat Fund Investment</u>

While the investment of zakat funds has been met with opposition from certain scholars due to concerns over compliance with Shariah principles and the rights of beneficiaries, a number of contemporary scholars have supported its permissibility under specific conditions. Among those who advocate for the permissibility of zakat fund investment are Sheikh Mustafa al-Zarqa, Dr. Yusuf al-Qaradawi, Sheikh Abdul Fattah Abu Ghuddah, Dr. Abdul Aziz Khayyat, Dr. Abdussalam al-Ibadi, Dr. Muhammad Salih Farfur, Dr. Abdullah Amin, and Dr. Muhammad Faruq al-Nubhan (Majma‘ al-Fiqh al-Islami, 1987:311–406).

Sheikh Mustafa al-Zarqa’ (1987:404) emphasized that investment essentially aims at enhancing the existing wealth. Therefore, any form of investment that seeks to increase the amount of zakat distribution such as turning one unit into two, or two into three is deemed permissible, provided that it is managed by trustworthy officials and directed towards low-risk ventures. He further stated that such investments should involve permissible (halal) commercial or industrial projects or any other ventures that can generate lawful profit.

This view is further supported by Dr. Muhammad Faruq al-Nubhan, who proposed the establishment of a Ministry of Zakat tasked with collecting and distributing zakat funds. This institution would also be responsible for developing zakat assets belonging to the poor and needy, thereby generating returns that could be redistributed to eligible beneficiaries (Mustafa al-Zarqa', 1987:404).

Similarly, Dr. Yusuf al-Qaradawi (1987:386) argued that, in line with the objective of empowering the poor, it is permissible for zakat institutions especially when zakat collections are substantial and sourced diversely to invest in the establishment of factories, industries, agricultural land, buildings, commercial centers, or other projects. The goal is to secure a sustainable income stream that is permanently owned by the poor and needy. He stressed that this ownership must not be transferred or sold to others, but rather retained similarly to waqf (endowment) properties.

This perspective is further substantiated by an incident from the time of the Prophet Muhammad (SAW), where the Prophet did not object to zakat livestock such as camels, goats, and cows being kept in designated enclosures for breeding and milk production (al-‘Asqalani, Vol. 3, 1501). This is supported by a narration from Anas bin Malik, who reported the Prophet’s PBUH practice regarding the management of zakat livestock:

عَنْ أَنَسٍ رضى الله عنه أَنَّ نَاسًا، مِنْ عُرَيْنَةَ اجْتَوَوُا الْمَدِينَةَ، فَرَخَّصَ لَهُمْ رَسُولُ اللَّهِ صلى الله عليه وسلم أَنْ يَأْتُوا إِبِلَ الصَّدَقَةِ فَيَشْرَبُوا مِنْ أَلْبَانِهَا وَأَبْوَالِهَا، فَقَتَلُوا الرَّاعِيَ وَاسْتَاقُوا الذَّوْدَ، فَأَرْسَلَ رَسُولُ اللَّهِ صلى الله عليه وسلم فَأُتِيَ بِهِمْ، فَقَطَّعَ أَيْدِيَهُمْ وَأَرْجُلَهُمْ وَسَمَرَ أَعْيُنَهُمْ، وَتَرَكَهُمْ بِالْحَرَّةِ يَعَضُّونَ الْحِجَارَةَ.

“Some people from `Uraina tribe came to Medina and its climate did not suit them, so Allah's Messenger (PBUH) allowed them to go to the herd of camels (given as Zakat) and they drank their milk and urine (as medicine) but they killed the shepherd and drove away all the camels. So Allah's Messenger (PBUH) sent (men) in their pursuit to catch them, and they were brought, and he had their hands and feet cut, and their eyes were branded with heated pieces of iron and they were left in the Harra (a stony place at Medina) biting the stones.”

Syeikh Abdul Fattah Abu Ghuddah stated that *"it is permissible to use zakat funds for investment purposes in support of the mujahidin (those striving in the cause of Allah). Shareholders may utilize or withdraw their shares, as the recipients of zakat (asnaf) are considered as depositors or beneficiaries in this context"* (Muhammad ʿUthman Shubayr, 1998:506).

Dr. Abdul Aziz Khayyat (1987:373) similarly advocated for the activation and partial investment of zakat funds in various sectors such as welfare, commerce, manufacturing, and industry, with the aim of benefiting the *asnaf*. The permissibility of such investments was also affirmed by Dr. Salih Farfur (1987:358), who justified it through the principle of *istihsan* (juristic preference), particularly in light of pressing needs. He emphasized that these investments must be conducted under the supervision of an Islamic government or a duly authorized institution.

Furthermore, such investments may be considered a form of ongoing charity (*sadaqah jariyah*), particularly when the assets are endowed (*waqf*). It thus becomes the responsibility of the trustee to ensure that the public continues to benefit from the waqf assets through efforts aimed at enhancing their returns. In light of this, if it is permissible for a trustee to undertake initiatives for the welfare of the community, it follows that it is also permissible for zakat institutions and the *baitulmal* to invest zakat funds for the benefit and well-being of the *asnaf* (Muhammad ‘Uthman Shubayr, 1998:521).

Based on the scholarly discussions and the evidences presented regarding the ruling on the investment of zakat funds by zakat institutions or the baitulmal, the second opinion which permits such investments is viewed as stronger and more well-founded. This is due to the robustness of the arguments and evidences supporting it. Furthermore, this permissibility aligns well with the current transformation efforts in zakat distribution undertaken by baitulmal institutions. The conventional practice of distributing zakat in the form of cash to eligible recipients, which has been inherited across generations, is increasingly seen as less effective in eradicating poverty. As an alternative, investing zakat funds either by the recipients themselves or by the zakat institutions may offer a more efficient and impactful mechanism for zakat distribution that benefits the *asnaf* more sustainably. There are also several institutions abroad that have invested zakat funds and successfully generated substantial returns, among them are:

- Zakat House Kuwait

  Zakat House Kuwait was established on 16 January 1982. It has actively invested zakat funds in various local and international business and investment projects. Among its notable investments was a project worth 200,000 Kuwaiti Dinars, which generated a return of 3,000,600 Kuwaiti Dinars in less than three months. In another hand, Zakat House Kuwait invested 480,000 Kuwaiti Dinars in an investment scheme, which yielded a profit of 4 million Kuwaiti Dinars within just two months.

- Zakat Chamber (Diwan al-Zakat)

  The Sudan Zakat Chamber (Diwan Zakat Sudan) was established in 1406 Hijri with the objective of eradicating poverty through the investment and development of zakat funds to benefit the poor and needy. Among its notable initiatives was the provision of fishing boats to impoverished families living along the coastline. Additionally, it undertook the construction of a textile and garment factory, which cost 5 million Sudanese Dinars and successfully created 3,000 job opportunities for the *asnaf*. Furthermore, a canal was constructed to irrigate 130,000 acres of agricultural land in the Nile Valley, significantly boosting agricultural yields for Arab farmers residing in the region. The Diwan also facilitated the procurement of agricultural equipment, seeds, and fertilizers to help poor farmers sustain the fertility of their land. These efforts yielded positive outcomes with some *asnaf* eventually becoming self sufficient and eligible to pay zakat returns of their agricultural production.

However, before any investment activity involving zakat funds is undertaken, it must be carefully examined and implemented in strict compliance with the guidelines established by Islamic law.

4.2 Islamic Legal Opinions on the Investment of Zakat Funds

Several fatwa rulings have been issued by various institutions in support of the permissibility of this matter:

a. *Majma' al-Fiqh al-Islami*

   The 3rd Conference of the Islamic Fiqh Academy held in Amman, Jordan, in October 1986, addressed the issue of zakat fund investment and concluded that zakat funds may be invested in any form of investment, provided that the profits generated are allocated to the *asnaf* or returned to the zakat institution or baitulmal for redistribution to the eligible recipients. However, before any investment activity is undertaken, it is preferable to ensure that the basic needs of the *asnaf* have been fulfilled and that sufficient guarantees are in place to avoid any potential loss."

b. Fatwa of the Shariah Advisory Committee of *Bayt al-Tamwil*, Kuwait

The committee opined that zakat funds should be invested on the basis that the welfare of the poor and the state of the economy are key focuses in the advancement of the Muslim ummah. Therefore, the investment of zakat funds is appropriate as it constitutes an effort to create a conducive economic environment. Accordingly, any losses incurred from such investment activities are not to be borne by any party, provided that thorough evaluation and diligent efforts have been made. However, if a guarantor is available, it is preferable and represents a precautionary measure.'" (Abdul Fatah Muhammad Farah, 1997:42)

c. Muzakarah Fatwa Kebangsaan Malaysia 2009

The Muzakarah of the National Fatwa Committee of Malaysia ruled that, in principle, zakat funds should not be invested. However, if the distribution of zakat has been sufficiently and completely fulfilled for all eligible *asnaf*, and a surplus remains, then it is permissible to invest the remaining zakat funds for the purpose of *maslahah 'ammah* (public interest). Nevertheless, such investments must strictly adhere to the conditions given:

I. A written guarantee must be provided by the Council affirming that the original zakat capital and its profits remain classified as zakat funds. The profits must be returned to the zakat account to be disbursed to eligible *asnaf*, after deducting reasonable management costs.

II. A written undertaking must be issued by the Council stating its readiness to fully repay the invested zakat funds to the zakat account in the event of any investment losses.

III. A written assurance must confirm that the zakat capital used for investment is liquid and can be withdrawn at any time should an urgent need arise for zakat disbursement.

IV. The investment activities must be properly managed and fully Shariah-compliant.

V. A comprehensive feasibility study must be conducted on any proposed investment involving zakat funds to ensure the investment is secure and viable.

VI. Prior approval from the Melaka Islamic Religious Council's meeting must be obtained to ensure that the investment policy aligns with Shariah principles.

VII. The investment must be managed by a dedicated committee or body consisting of individuals with expertise in investment and who are known for their trustworthiness.

4.3 Implementing Zakat Fund Investment in Lembaga Zakat Negeri Kedah (LZNK)

Lembaga Zakat Negeri Kedah (LZNK) has shown significant progress in strengthening its institutional framework and operational capacity evidenced by a consistent increase in zakat collection over the years. In its efforts to evolve into a more professional and corporate-oriented body, LZNK has taken several strategic initiatives to enhance its credibility and trustworthiness among zakat payers.

One of the major steps includes obtaining recognitions and certifications from authoritative bodies, such as the MS ISO 1900 Shariah-Based Quality Management System (QMS) Certification, aimed at ensuring transparency and integrity in the distribution of zakat. This move is part of a broader transformation agenda to professionalise zakat administration while upholding Shariah compliance at every operational level. (Informant three)

LZNK's commitment to excellence has been recognised nationally, with the institution receiving several accolades including the National Zakat Award 2024 by the Department of Islamic Development Malaysia (JAKIM) and the Best Distribution Award for its *Foodbank Project*, which directly supports underprivileged communities in the state. (Informant three)

In line with its ambitious vision, LZNK is now working towards a bold target of achieving RM1 billion in zakat collection within a single year. To realise this, the organisation has launched various strategic programmes, including the empowerment of *wakaf tunai* (cash endowment) initiatives. One of the landmark projects is the Hasan Rice Mill Project, officially inaugurated by the DYMM Al-Aminul Karim Sultan Sallehuddin Ibni Almarhum Sultan Badlishah, the Sultan of the State of Kedah Darul Aman in March 2025. This project reflects LZNK's proactive approach in integrating sustainable economic ventures with zakat and wakaf mechanisms, thereby amplifying the long-term socio-economic impact for *asnaf* beneficiaries. Through these comprehensive efforts, LZNK continues to position itself as a model zakat institution in Malaysia, demonstrating a balance between Shariah governance, institutional professionalism and a strong commitment to social justice. (informant one)

Moving towards the goal frequently voiced by Dato' Syeikh Zakaria Bin Othman as Chief Executive Officer of LZNK to achieve RM1 billion in annual zakat collection requires solid planning that takes into account the current economic climate and societal stability in facing ongoing inflation. In this pursuit, LZNK must strengthen its readiness by not relying solely on public funds. In line with this, an initial step toward implementing investments using a capital preservation strategy is considered the safest method to ensure the sustainability of the zakat institution in today's challenging global landscape. The investment system at this early stage is not aimed at generating massive returns but rather at securing the continuity and sustainability of funds so that aid can consistently be delivered to the *asnaf* under any circumstances. Although the investment of zakat funds in Malaysia is still in the development phase, strategic efforts towards establishing a self-sustaining zakat ecosystem must be initiated at this stage. This is essential to ensure that LZNK continues to play a leading role among zakat institutions nationwide.(Informant one)

Prior to advancing any initiatives involving the investment of zakat funds, it is imperative for LZNK to prioritise the fulfilment of the immediate and essential needs of the zakat recipients (*mustahiq*), in accordance with the primary objectives (*maqasid khassah*) of Shariah. The emphasis must remain on addressing the direct welfare of the *asnaf* before broader public interests (*maqasid ‘ammah*) are considered.While some Islamic scholars consider investing zakat to be not allowed, this challenge can be addressed by putting in place the right systems and ensuring that the investment follows proper Shariah rules (Informant four). One of the key foundational principles for implementing this form of innovation is ensuring justice among all *mustahiq*. Imam al-Syafie stated that justice must be maintained by safeguarding the interests of the recipients and promoting the welfare of the ummah as much as possible (al-Syafie, 1996). Hence, any surplus from the zakat funds that is not immediately distributed to the *mustahiq* may be developed through two types of investment methods:

- <u>Consumptive Zakat Fund Investment</u>

The first method refers to an approach already practiced by LZNK in assisting *asnaf*. Consumptive zakat fund investment involves direct spending of zakat funds for the benefit of the recipients. For instance, educational scholarships are granted to students who qualify as zakat recipients, easing the financial burden on their parents by covering tuition fees. Similarly, zakat funds may be invested in providing business infrastructure and capital for *asnaf* entrepreneurs.

- Productive Zakat Fund Investment

This second approach is relatively new to zakat institutions in Malaysia compared to its adoption in Brunei and Indonesia. For example, in Brunei, productive zakat investment began through collaboration between the Brunei Islamic Religious Council (MUIB) and the Brunei Islamic Trust Fund (TAIB). Between 2000 to 2007, the accumulated zakat funds invested in this Shariah-compliant institution generated profits between BND $6.5 million and BND $8.3 million. MUIB also undertook an initiative to liquidate BND $90 million in zakat funds, which helped uplift 4,000 zakat recipients out of poverty (Islamic Religious Council, 2009).

In applying such a model, LZNK could function as a financial management body handling depositor funds. Depositors would be able to deposit and withdraw from their zakat accounts, and in return, they would receive a share of the investment profits after deducting management and zakat related costs. This model could be reviewed to determine whether the investment capital should come entirely from zakat funds or solely from depositor contributions. Additionally, any profit must be purified through zakat deductions applicable to the gains.

In this system, the wakalah (agency) contract could be utilized, where LZNK acts as the agent either on behalf of the *mustahiq* or the depositors to manage the funds. This innovation could encourage greater community participation in zakat development by allowing individuals to contribute actively through zakat savings schemes. Furthermore, it would elevate LZNK's reputation as a professional and competitive Islamic economic institution.

In addition to *wakalah*, other Shariah-compliant contracts such as *mudarabah* (profit-sharing) or *musharakah* (joint venture) could also be explored. These contracts allow for risk-sharing and profit distribution in a transparent and ethical manner, aligning with the objectives of Shariah while opening opportunities for more dynamic and sustainable investments. This approach not only diversifies the investment instruments but also empowers *asnaf* participation in productive economic activities. (Informant two)

Therefore, several guidelines must be adhered to in order to ensure that the investment of zakat funds is aligned with Shariah principles. Among these guidelines are:

1) Investment Must Be Made from Surplus Zakat Funds

   The funds allocated for investment must only be drawn from zakat surpluses specifically, after the essential and immediate needs of all eligible recipients (*mustahiq*) have been fully addressed. This ensures that the primary objective of zakat, which is to alleviate hardship among the poor and needy, is not compromised.

   Dr. Abdul Aziz al-Khayyat (1987:371) opined that the implementation of this guideline can be realized by investing only a portion of the zakat share, while the remaining portion should be distributed directly to the *asnaf* (eligible recipients) to meet their immediate needs. This view is more acceptable compared to investing the entire portion that should be allocated to each *asnaf* group. In this way, the *asnaf* will still receive part of their zakat allocation on time, even if not in full, and it will be supplemented later by the profits generated from the investment.

2) Investment Must be in Shariah-Compliant Ventures

All investment activities must be fully compliant with Islamic principles. This includes avoiding interest-based instruments (*riba*), excessive uncertainty (*gharar*), and impermissible sectors such as gambling and other haram industries. Allah SWT said (Quran 5:100)

قُل لَّا يَسْتَوِي الْخَبِيثُ وَالطَّيِّبُ وَلَوْ أَعْجَبَكَ كَثْرَةُ الْخَبِيثِ ۚ فَاتَّقُوا اللَّهَ يَا أُولِي الْأَلْبَابِ لَعَلَّكُمْ تُفْلِحُونَ

"*Not equal are the evil and the good, although the abundance of evil might impress you." So fear Allah, O you of understanding, that you may be successful.*"

This verse indicates that Allah SWT does not accept any matter, including the investment of wealth, if it is conducted through unlawful means. Even if the returns are multiplied many times over, such profits are not recognised by Shariah if they are gained through impermissible methods.Therefore, investing zakat funds in ventures that involve prohibited elements is strictly not allowed. Those managing zakat fund investments must select Shariah-compliant securities such as shares, trusts, and bonds. If the investment is made in the form of capital provision for a specific business, the operator must ensure that the business complies with Shariah principles.

For instance, in the context of stock investments in Malaysia, the Shariah Advisory Council (SAC) of the Securities Commission classifies a company as non-Shariah compliant if its core activities are inconsistent with Islamic principles, such as:

a. Financial services based on riba (interest)

b. Gambling and betting

c. Production and sale of non-halal or related products

d. Conventional insurance

e. Entertainment activities that are not in line with Shariah

f. Production or sale of tobacco-based products

g. Brokerage or trading of non-Shariah compliant securities

h. Any other activities deemed contrary to Shariah (List of Shariah-Compliant Securities, 2008:4)

3) High Probability of Benefit to *Asnaf*

The potential for the investment to generate returns that will be redirected to the *asnaf* must be reasonably high. The objective is not merely to generate profit, but to ensure that any financial gain directly contributes to the sustained well-being and empowerment of zakat recipients. (informant one)

Since the funds invested are sourced from zakat collections, any profit or return generated from the investment rightfully belongs to the asnaf. This means that individuals who do not fall under the eight categories of asnaf mentioned in the Quran are not entitled to receive any portion of the investment returns. Allah SWT said:

وَلَا تَأْكُلُوا أَمْوَالَكُم بَيْنَكُم بِالْبَاطِلِ وَتُدْلُوا بِهَا إِلَى الْحُكَّامِ لِتَأْكُلُوا فَرِيقًا مِّنْ أَمْوَالِ النَّاسِ

بِالْإِثْمِ وَأَنتُمْ تَعْلَمُونَ

"And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful]."

(Quran: 2:188)

This verse applies general to all parties, whether those managing the zakat investments or others, prohibiting them from consuming the wealth of others unjustly. It is expressed in the form of a prohibition (*fiʿl nahiy*), and according to the principles of *Usul al-Fiqh*, such prohibitions indicate that the action in question is haram (forbidden). (al-Shawkani, 2000:496)

4) Low-Risk Investment Strategy

Zakat investments must prioritize capital preservation. Investments should be made in low-risk, stable ventures that minimize the possibility of financial loss. This conservative approach aligns with the trust (amanah) nature of zakat management. (Informant Two)

Zakat institutions or investment companies must bear the losses if they occur as a result of their negligence. However, if the loss is not due to negligence, according to Dr. Muhammad al-Farfur (1987:359), it should be borne by the Baitulmal or the state treasury. This is to ensure that the rights of the asnaf are preserved and not forfeited. Such losses may occur in two forms, either the investment capital from zakat funds is entirely depleted, or it is partially diminished. Regardless of whether the loss is total or partial, any portion of the zakat fund that rightfully belongs to the asnaf and is lost must be compensated by the responsible parties. (informant two)

5) Governance by a Qualified and Trustworthy Committee

The investment process must be managed by a dedicated body or committee consisting of professionals who are both experienced in financial investment and known for their integrity and trustworthiness. Proper oversight mechanisms must be in place to ensure transparency, accountability, and ethical compliance throughout the investment lifecycle. (Informant Three)

Investing zakat assets requires capability, experience, expertise, and trustworthiness. This is in line with the saying of the Prophet Muhammad (PBUH):

أَنْتُمْ أَعْلَمُ بِأَمْرِ دُنْيَاكُمْ

" You are more knowledgeable about your worldly affairs.."

This hadith was stated by the Prophet (PBUH) as an encouragement when date farmers were advised not to use cross-pollination techniques for date palms. As a result, their trees produced poor yields. This incident clearly shows that certain matters require specific expertise and should be entrusted to those qualified. The Prophet (PBUH) also issued a warning in another hadith narrated by Abu Hurairah (RA):

فَإِذَا ضُيِّعَتْ الْأَمَانَةُ فَانْتَظِرْ السَّاعَةَ قَالَ كَيْفَ إِضَاعَتُهَا قَالَ إِذَا وُسِّدَ الْأَمْرُ إِلَى غَيْرِ أَهْلِهِ

فَانْتَظِرْ السَّاعَةَ

> " *When a matter is entrusted to those who are not qualified for it, await its destruction."(al-Bukhari,59)*

In addition, the implementation of such investment strategies must be accompanied by robust risk assessment procedures, legal due diligence and continuous monitoring to safeguard the interests of the *asnaf*. Clear policies must also be established regarding the reinvestment or distribution of profits, exit strategies, and the liquidation of assets in case of urgent needs. (Informant four) Ultimately, the goal is not to prioritize institutional gain but to enhance the sustainability of zakat funds and ensure long-term socio-economic empowerment for the *asnaf* community. (Informant 1)

CHAPTER FIVE:
CONCLUSION AND RECOMMENDATION

5.0 Introdution

The main objective of this to examine the conceptual framework and foundational principles of zakat fund investment in Islamic thought, to analyse zakat investment practices from the perspective of Shariah compliance, particularly in relation to *Maqasid al-Zakah*, to evaluate contemporary institutional practices and the operational readiness of zakat agencies in implementing zakat investment mechanisms. The data for this research were collected using semi-structured interviews. The recorded interviews, along with written responses from certain informants, were carefully transcribed, coded, analyzed, interpreted, and validated. Accordingly, this chapter presents a summary of the key findings, the contributions and implications of the study, as well as recommendations provided by the researcher.

5.1 Summary of Findings

The findings of this study are presented in alignment with the three predefined research objectives, as outlined below.

5.1.1 Objective One

To examine the conceptual foundational principles of zakat fund investment in Islamic thought.

Classical and contemporary Islamic scholars have debated the permissibility of zakat fund investment, with many affirming its validity provided that the foundational Shariah principles are upheld. The investment must not compromise the rights of the eligible recipients (*mustahiq*), and it should be directed toward achieving the primary objective of zakat fulfilling the immediate and essential needs of the *asnaf*. The study also highlights that the idea of investing zakat aligns with the maqasid al-Shariah, particularly in realizing socio-economic justice, promoting self-reliance among the poor, and preventing the devaluation of idle zakat funds due to inflation. However, any investment must be carried out with caution, guided by principles such as capital preservation, transparency, and Shariah compliance, reinforcing the view that the permissibility of such investment depends not only on theoretical acceptance but also on its practical execution within an accountable and structured framework.

5.1.2 Objective Two

To analyse zakat investment practices from the perspective of Shariah compliance particularly in relation to Maqasid al-Zakah.

The analysis of zakat investment practices through the lens of Shariah compliance and Maqasid al-Zakah reveals that such investments can be permissible and beneficial, provided they adhere strictly to Shariah principles and fulfill the primary objectives of zakat. Central to this is ensuring that the essential and immediate needs of the *asnaf* (eligible recipients) are met before any surplus is considered for investment.

This aligns with the overarching aim of zakat to uplift and empower the underprivileged. Importantly, the practice of investing zakat funds also aligns with the objective of *ḥifẓ al-māl* (protection and preservation of wealth), one of the fundamental goals of the Shariah. Through Shariah-compliant investment strategies, zakat funds can be safeguarded from inflation and loss of value, ensuring their sustainability and continued benefit to the *asnaf* over time. However, any investment initiative must be undertaken with due diligence, minimal risk, and under the supervision of a qualified and trustworthy body.

The emphasis must remain on the ethical and transparent management of funds to avoid harm and ensure that the economic empowerment of the *asnaf* does not come at the cost of compromising Shariah principles. Ultimately, when properly regulated, zakat investment not only fulfills the goals of *Maqasid al-Zakah* but also strengthens the long-term socio-economic stability of the Muslim community.

5.1.3 Objective Three

To evaluate contemporary institutional practices and the operational readiness of zakat agencies in implementing zakat investment mechanisms.

The evaluation of contemporary institutional practices and the operational readiness of zakat agencies in implementing zakat investment mechanisms reveals a gradual but positive shift towards a more strategic and sustainable approach in zakat management. Findings from this study indicate that

Lembaga Zakat Negeri Kedah and several zakat institution have taken proactive steps in enhancing professionalism, improving transparency, and building financial literacy to support long-term initiatives such as zakat fund investment.

While operational frameworks are still in their developmental stages, efforts such as obtaining Shariah compliance certifications, forming investment committees, and exploring low-risk investment opportunities demonstrate a growing institutional awareness of the potential of zakat investment. These practices not only reflect a commitment to aligning with Shariah objectives but also highlight the aspiration to move beyond traditional models of zakat distribution.

Crucially, the implementation of zakat investment must be viewed as a long-term strategy. It requires careful planning, robust governance, and public trust to ensure that the rights of the *asnaf* are never compromised. Institutional readiness therefore involves not only the availability of financial and technical resources but also the development of ethical frameworks and risk management mechanisms. In sum, zakat investment, when properly institutionalized, can serve as a transformative tool to empower recipients and preserve the integrity and sustainability of zakat systems in an ever-evolving economic environment.

5.2 Suggestion to Overcome the Issues

i. Risk of Loss

Investment is a form of business that is subject to the dynamics of the global market. This highlights that the rise and fall of a company's shares are heavily influenced by current economic conditions (Islami.A , 2021). Furthermore, under the *mudarabah* contract, the zakat institution may be required to replace the invested capital in the event of a loss. Therefore, selecting investment projects with minimal risk and appointing competent officers are crucial measures that can help generate stable zakat income.

ii. Public Criticism Towards Zakat Institutions as Business Entities

Zakat has historically functioned as an economic institution for Muslims since the advent of Islam in the Arabian Peninsula. Nevertheless, the institution is often seen as adhering to traditional models without embracing the tools of modern financial systems. While the term "business entity" may be seen as controversial, it should not be a point of contention. The essence of the zakat system remains intact; what is introduced is a renewed mechanism that serves to enhance the effectiveness of Islamic financial management in contemporary contexts.

iii. Lack of Investment Professionals

To mitigate the risk of loss in investment activities, it is imperative for LZNK to have a dedicated team of officers with relevant expertise. This issue, however, can be addessed by sending staff for professional training or certifications in investment management. Additionally, LZNK could recruit qualified professionals directly. This approach not only resolves the internal skills gap but also creates employment opportunities for individuals with appropriate credentials, further strengthening the institution's operational capacity.

5.3 Contribution and Implication of the Study

This study contributes significantly to the discourse on zakat fund management by offering a focused analysis on the permissibility, practicality, and implementation readiness of zakat fund investment, particularly within the context of Malaysia and the Kedah State Zakat Board (LZNK). It bridges the gap between theoretical Islamic jurisprudence and institutional practices, thereby offering both scholarly insights and practical recommendations.

1. Theoretical Contribution:

   The research provides a deeper understanding of the conceptual framework of zakat investment from the perspective of Islamic legal theory (*fiqh*) and *Maqasid al-Shariah*. It contributes to the scholarly discussion by highlighting the conditional permissibility of zakat investment especially once the primary needs of the *mustahiq* have been fulfilled and by contextualizing classical opinions with contemporary realities. Furthermore, the study emphasizes the role of *hifz al-mal* (protection of wealth) as a key Shariah objective in justifying long-term investment strategies.

2. Practical Contribution:

On an operational level, this research highlights the existing gaps and readiness of zakat institutions in Malaysia to implement investment mechanisms. It provides a set of actionable guidelines that could be used by policymakers and zakat administrators to develop investment models that are Shariah-compliant, risk-conscious, and strategically aligned with both short-term welfare and long-term sustainability. In particular, the study offers critical insights for LZNK in its pursuit of financial growth, public trust, and institutional resilience.

3. Policy Implications:

   The findings can inform national zakat authorities, fatwa councils, and related stakeholders about the prerequisites and frameworks necessary to safely initiate zakat fund investments. The study advocates for enhanced transparency, stronger governance structures, the inclusion of professional investment expertise, and ongoing Shariah oversight to ensure accountability and compliance.

4. Social Implications:

   By proposing a sustainable model for zakat investment, the research has the potential to reshape public perception of zakat institutions from being passive distributors to proactive agents of socio-economic development. This shift can foster greater confidence among zakat payers and empower *asnaf* groups through economic independence, eventually reducing long-term dependency on zakat assistance.

5.4 Recommendation

Based on the findings and analysis of this study, several recommendations are proposed to enhance the implementation and governance of zakat fund investment within the framework of Shariah compliance and institutional readiness.

- Establish a Shariah-Compliant Investment Framework

  Zakat institutions, particularly LZNK, are encouraged to develop a comprehensive investment framework that is fully aligned with Shariah principles. This includes identifying low-risk, Shariah-compliant sectors for investment and setting clear parameters that prioritize the protection of zakat assets (*hifz al-mal*) and the welfare of the *asnaf*.

- Prioritize the Fulfillment of Immediate Needs of *Asnaf*

  Before any investment initiatives are undertaken, zakat institutions must ensure that the essential and urgent needs of all eligible recipients (*mustahiq*) are fulfilled. This is in line with the principle of *maqasid al-zakah*, which emphasizes direct support to the needy.

- Adopt a Capital Preservation Strategy

  At the initial stage, investment strategies should focus on capital preservation rather than maximizing returns. This cautious approach can maintain the sustainability of zakat funds and ensure continuous support to the *asnaf*, especially during times of economic instability.

- Enhance Human Capital and Expertise

  It is recommended that LZNK invests in training and developing a team of qualified professionals with expertise in Islamic finance and investment. This will ensure that investment decisions are made prudently and ethically. Where internal capacity is limited, external Shariah advisory services should be consulted.

- Improve Governance and Transparency

  A dedicated investment committee consisting of Shariah scholars, financial experts, and experienced professionals should be established to oversee and monitor all investment activities. This will foster greater transparency, accountability, and public confidence in the institution.

- Engage with the Public to Build Trust

  Zakat institutions must actively engage with the community to raise awareness about the objectives and mechanisms of zakat investment. Public education and transparent reporting will help dispel misconceptions and reinforce the idea that zakat investment is an institutionalized act of charity aimed at long-term socio-economic empowerment.

- Pilot Projects and Risk Assessment

  LZNK should consider implementing pilot projects in collaboration with trusted financial institutions to test investment mechanisms before full-scale implementation. Comprehensive risk assessments must be conducted for each project to ensure compliance and minimize exposure to loss.

- Collaboration with Other Islamic Institutions

  Strategic collaboration with other zakat agencies, waqf boards, and Islamic financial institutions should be encouraged to share resources, expertise, and best practices in managing Shariah-compliant investments.

5.5 Conclusion

The discourse surrounding the permissibility of zakat fund investment continues to evolve in light of contemporary economic challenges and the pursuit of long-term solutions for poverty alleviation. While the classical position tends to prohibit the investment of zakat due to the immediate obligation of disbursing it to eligible recipients (*mustahiq*), many contemporary Muslim scholars have opened the door to its permissibility under specific conditions. These conditions include the fulfillment of the immediate needs of the *asnaf* and the application of sound Shariah-compliant investment mechanisms.

The potential benefits of zakat investment are both economic and social. It serves as a strategic means to prevent zakat funds from remaining idle and losing value due to inflation. More importantly, it offers a sustainable pathway to empower recipients, transitioning them from dependency to financial independence. Various forms of investment particularly those aimed at creating employment and providing productive tools have been recommended by scholars, provided they are overseen by authoritative institutions capable of ensuring compliance and accountability.

In the Malaysian context, particularly within the framework of the Lembaga Zakat Kedah (LZNK), this innovation calls for structured ijtihad (juristic reasoning) and collective scholarly engagement. The implementation of zakat investment must not be seen merely as a financial mechanism but rather as a holistic approach to Islamic social finance that aligns with maqasid al-Shariah (the higher objectives of Shariah). It must be rooted in transparency, governed by trustworthy and skilled bodies, and continuously evaluated to ensure that the original purpose of zakat which to serve the needs of the poor and underprivileged is upheld.

To realize the aspiration of transforming LZNK into a self-sustaining, professionally managed institution, strategic planning, public trust, and collaborative engagement are paramount. The public must perceive LZNK not as a corporate entity but as a pivotal instrument of social welfare and economic empowerment. This perception can only be established when transparency, integrity, and the spirit of collective benevolence are visibly upheld.

As Imam al-Shatibi once remarked, “If a ruler fails to distribute the rights of the needy effectively, the state will become weak and lose its legitimacy, thereby exposing the entire Muslim nation to destruction.” This timeless reminder underscores the gravity and responsibility borne by zakat institutions. As such, zakat investment must not be pursued solely for institutional growth but rather as a means of preserving the integrity, sustainability, and impact of zakat as a divine trust. Through a careful balance of innovation and tradition, LZNK can lead the way in pioneering zakat management that truly fulfills both the letter and spirit of Islamic economic justice.

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APPENDIX A

INTERVIEW SCHEDULE

Interview Schedule

ZAKAT INVESTMENT IN MALAYSIA : AN ANALYSIS OF SHARIAH COMPLIANCE PERSPECTIVE

General Understanding on Zakat Investment & Shariah Perspective
1. What is your general view on the implementation of zakat fund investment by zakat institutions in Malaysia?
Investment Instruments & Strategies
2. What type or form of investment instruments do you consider most appropriate for zakat funds from the perspective of Shariah compliance and with minimal risk?
3. Based on Islamic Scholar discussions on the permissibility of zakat fund investment often highlight concerns about the potential impact on asnaf rights in the event of financial loss. In your opinion, what investment strategies can be adopted by trust institutions or foundations to ensure capital preservation while still generating returns?
4. What is your suggestion regarding suitable investment models for zakat funds based on long term investment?
Risk Management & Capital Considerations
5. What is your opinion on the concept of “capital preservation” versus “capital growth” in the context of managing charitable funds? Which one should be prioritized? What is the biggest risk when non-profit institutions such as zakat agencies participate in investment activities?
Governance, Transparency & Public Trust

6. In your opinion, what control and monitoring mechanisms should be established if zakat institutions engage in investment activities?	
7. How can zakat institutions ensure that their investment activities do not lead to a loss of public trust in the integrity of zakat management?	
Asnaf Benefit & Future of Zakat Investment	
8. How do you think zakat fund investments can benefit the asnaf community in the long term?	
9. Finally, how do you view the necessity of implementing zakat fund investment as a financial instrument to enhance the zakat pool, especially considering that zakat institutions have traditionally relied solely on public contributions?	

APPENDIX B

INTERVIEWS TRANSCRIPT AND CODED ANALYSIS

General Understanding on Zakat Investment & Shariah Perspective	
Interviewer	1. What is your general view on the implementation of zakat fund investment by zakat institutions in Malaysia?
Informant 1	*The informant strongly supports the idea that zakat fund investment is permissible, provided it complies strictly with Shariah principles. Any form of investment must avoid elements of riba (interest), gharar (uncertainty), and maisir (gambling). The permissibility is also supported by contemporary Shariah councils, such as the National Fatwa Council and the Majma' Fiqh Islami, with the condition that the investments do not delay urgent needs of the asnaf and all returns from the investment are channeled solely for their benefit. The fundamental principle is that the investment must be Shariah-compliant and ultimately bring greater benefit (maslahah) to the recipients of zakat.*
Informant 2	*Although no specific theoretical model exists, the guidelines proposed by Dr. Hussein (Al-Azhar) are currently used as a procedural reference. These include: The preservation of capital is essential. Zakat fund investments must be managed by qualified personnel. Proper research (due diligence) must be done before investing.Institutions must adhere to SOPs to minimize risk.*
Informant 3	*Based on the video, LZNK appears to be well-prepared for a more systematic and high-impact zakat management approach, even though it does not explicitly mention investment practices. Through the development of the Zakat On Touch system, the use of real-time technology, and the implementation of Shariah-compliant*

	standards such as MS1900, it reflects that LZNK is creating a supportive ecosystem for future zakat fund investments that are strategic, transparent, and structured. LZNK's commitment to excellence has been recognised nationally, with the institution receiving several accolades including the National Zakat Award 2024 by the Department of Islamic Development Malaysia (JAKIM) and the Best Distribution Award for its *Foodbank Project*, which directly supports underprivileged communities in the state
Informant 4	*Classical fuqahaḥ do not permit investing zakat funds in conventional financial markets or instruments. There is no Islamic legal basis currently authorizing such investments. What is permissible under the concept of "investment" is more akin to charitable developmental activities (e.g., building schools or establishing smart-farm projects) zakat in kind or grant-style, not profit-driven placements. These developmental efforts align well with maqaṣid: uplifting the needy, empowering asnaf through education/business access, and creating social welfare sustainably.*
Investment Instruments & Strategies	
Interviewer	2. What type or form of investment instruments do you consider most appropriate for zakat funds from the perspective of Shariah compliance and with minimal risk?
Informant 1	*There are contrasting views among scholars. Classical scholars like Imam Nawawi and Ibn Qudamah held a stricter opinion that*

	zakat should be distributed immediately and must not be delayed or stored, including for investment purposes. This reflects a concern about neglecting urgent needs of the asnaf. However, modern scholars like Dr. Yusuf al-Qaradawi and Dr. Wahbah al-Zuhayli take a more practical view, allowing investments under strict conditions. This position is also supported by collective fatwas such as Majma' Fiqh Islami, who emphasise that investment is allowed if it ensures better outcomes for asnaf and does not involve high risks. Although zakat fund investment in Malaysia is still in its developmental stage, it is crucial to initiate strategic efforts now to build a self-sustaining zakat ecosystem. This will ensure that LZNK maintains its position as a leading zakat institution at the national level.
Informant 2	*The informant emphasizes that zakat is meant to be distributed to the asnaf, not kept or held like funds under the wadiah concept. He cited the hadith that zakat should be taken from the rich and given to the poor, which implies immediate distribution.*
Informant 3	*Although specific investment instruments were not mentioned, the video emphasizes integrity, transparency, and public trust. Therefore, the most appropriate instruments would be:* • *Low-risk, Shariah-compliant investments, such as sukuk, mudarabah with capital protection, or murabahah financing.* • *Instruments that are auditable and easily traceable.* • *Investments that directly benefit asnaf, such as*

	microfinancing or asset-building programs.
Informant 4	*Shariah compliance* *Investing in profit-driven financial instruments (e.g., stocks, sukūk, Takaful products) is not currently justified due to lacking Shariah-legal basis .* *Minimal risk approach* *Preferred route is investment through real-world projects, such as School or educational infrastructure (allocation through ʿayānī or iʿlām) Agricultural/farming equipment ("smart sawah") given in-kind to beneficiaries and managed as projects.*
Interviewer	3. Based on Islamic Scholar discussions on the permissibility of zakat fund investment often highlight concerns about the potential impact on asnaf rights in the event of financial loss. In your opinion, what investment strategies can be adopted by trust institutions or foundations to ensure capital preservation while still generating returns?
Informant 1	*In terms of financial strategy, the informant stresses that capital preservation should be the first priority. This means building a secure reserve fund to maintain the original zakat capital and ensure emergency readiness. Only after a stable fund is established should capital growth strategies be pursued. This phased approach reflects the amanah (trusteeship) nature of zakat management and avoids excessive risk. High-risk investments must be avoided*

	entirely, especially those with potential to erode the principal zakat funds.
Informant 2	*If investments are made following SOPs, with expert advice and thorough analysis, then not all losses should fall on the zakat institution. The institution has exercised diligence, and risk is part of the process.However, if the institution ignores SOPs, makes investments based on assumptions, or skips due diligence, then the entire loss is their responsibility.Losses might need to be covered from the amil's portion (⅛ of zakat fund), or by adjusting the distribution for that year.*
Informant 3	*Although specific investment instruments were not mentioned, the video emphasizes integrity, transparency, and public trust. Therefore, the most appropriate instruments would be:* • *Low-risk, Shariah-compliant investments, such as sukuk, mudarabah with capital protection, or murabahah financing.* • *Instruments that are auditable and easily traceable.* • *Investments that directly benefit asnaf, such as microfinancing or asset-building programs.*
Informant 4	*The institution must assume full responsibility for the capital if loss occurs, zakat agency must replace principal. This means any developmental investment model must include:* • *A reserve/sinking fund to buffer against losses .* • *Adopting financial accountability and reimbursement*

	obligations.
Interviewer	4. What is your suggestion regarding suitable investment models for zakat funds based on long term investment?
Informant 1	*The informant supports long-term zakat fund investment through models that:* - *Ensure safety and compliance first (capital preservation),* - *Empower asnaf economically through strategic, low-risk ventures,* - *And gradually pursue capital growth once basic reserves are secured.* *Investment models such as mudarabah, musyarakah, real estate, and micro-business support are seen as ideal, provided they are well-managed and audited, and prioritize asnaf benefit over institutional profit.*
Informant 2	*The informant argues that investment is not just theoretical but necessary. While zakat collection may seem stable, economic downturns can reduce collections while demand for aid increases. Investment ensures long-term sustainability, even in emergencies or crises. Example: Morocco banning Qurban due to drought highlights how Shariah-based flexibility and strategic thinking are crucial.*

Informant 3	*Suggested models based on the principles highlighted in by informant include:* • *Waqf-zakat hybrid models, where zakat supports the development of waqf projects that generate ongoing benefits for asnaf.* • *Investment in stable fixed assets, such as rental properties or social infrastructure.* • *Investments in zakat system innovation, like Zakat On Touch itself, which indirectly stabilizes and enhances zakat fund collection in the long term.*
Informant 4	*Short-term: Fixed Islamic deposit or funds for imminent disbursement cycles. Medium-term: Agricultural projects (e.g. smart paddy initiatives), training centers. Long-term: Educational institutions or permanent infrastructure (schools, vocational centers) funded through the fisabilillah category.*
Risk Management & Capital Considerations	
Interviewer	5. What is your opinion on the concept of "capital preservation" versus "capital growth" in the context of managing charitable funds? Which one should be prioritized? What is the biggest risk when non-profit institutions such as zakat agencies participate in investment activities?
Informant 1	*The informant strongly emphasizes that in the early stages of zakat fund investment, the main priority must be capital preservation, not*

	growth. This is because: • *Zakat funds are Amanah (trust funds) the principal amount belongs to the asnaf, not to the zakat institution.* • *The primary objective is to ensure that the original zakat fund remains intact, particularly in case of emergencies or unforeseen needs.* • *Preserving capital aligns with the ethical and religious obligation of the zakat institution as a trustee (amin), and supports the long-term sustainability of zakat distribution.* *"Preserve the original value first. Only when there is sufficient reserve, then consider growing the capital."* *The informant cautions that the biggest risk in zakat fund investment is the possibility of losing the capital, which ultimately affects the asnaf:* *a. Reputational Risk* • *Mismanagement or lack of transparency could erode public trust in the institution.* • *When people see zakat money being used in risky ventures, it may lead to decreased contributions, especially during crises.* *b. Operational Risk* • *If proper procedures (SOPs) are not followed, losses might occur due to weak internal controls, lack of expertise, or poor investment decisions.* *c. Shariah Non-Compliance*

	Engaging in investments that are not compliant with Islamic principles may invalidate the zakat, as the funds are misused.
Informant 2	*Zakat should be distributed first; only surplus (usually at year-end) should be invested. This surplus can act as reserves for future emergencies. Investment models can be:* o *Managed directly by the zakat institution.* o *Delegated to capable asnaf, such as those receiving business capital support (e.g., microcredit for entrepreneurs).*
Informant 3	The video strongly emphasizes public perception and trust, indicating that capital preservation should be the priority in zakat fund management. The biggest risk is: - Loss of public trust due to financial loss or lack of transparency. LZNK mitigates this risk by: - Implementing real-time monitoring systems. - Strict approval from the Sultan for strategic decisions. - Certification under Islamic Quality Management Standards (MS1900) and frequent auditing.
Informant 4	*Mr Hazwan stresses that preserving capital takes precedence since:* 1. *Any investment-related losses must be covered fully.* 2. *The objective is not wealth accumulation, but sustainable provision for asnaf through programs/projects.*

Governance, Transparency & Public Trust	
Interviewer	6. In your opinion, what control and monitoring mechanisms should be established if zakat institutions engage in investment activities?
Informant 1	*Strong internal audit and external oversight mechanisms are crucial to ensure that zakat investments remain compliant and efficient. The informant calls for consistent auditing, proper documentation, and risk assessment procedures. Mismanagement or lack of transparency can lead to public distrust, which in turn affects zakat collection. Therefore, trust-building and accountability must go hand in hand with any investment efforts.*
Informant 2	*Ownership of zakat lies with the asnaf, not the amil. Amils are trustees (amin) and not entitled to manage funds arbitrarily. Seeking explicit permission from every asnaf is impractical, so amil discretion (ijtihad) is used to safeguard and grow the funds on behalf of the asnaf.*
Informant 3	*Effective mechanisms (as demonstrated by LZNK) include:* • *Real-time digital tracking of collection and disbursement.* • *Strategic decision-making approved by high-authority leadership (e.g., DYMM Sultan).* • *Shariah compliance certification and external audits.* • *Public communication platforms (websites, apps, media) to keep contributors informed.*
Informant 4	*Real-time dashboards exist showing real-time zakat inflow*

	especially peaking at end of year (e.g. December 31st).Decision-making must involve collaboration between accountants and Shariah scholars to interpret terms like fauriyyan (immediate disbursement). Delays in disbursement are sometimes misunderstood by the public; thus, institutions need comprehensive systems and outreach to clarify these.
Interviewer	7. How can zakat institutions ensure that their investment activities do not lead to a loss of public trust in the integrity of zakat management?
Informant 1	*The informant emphasised that zakat institutions are only amin (trustees), not owners, of the zakat fund. Therefore, they must handle it with full integrity and transparency. No portion of investment profit may be used for administrative or operational costs beyond what is stipulated in the permissible 1/8 share for amil. All returns from any investment must be channelled back to the asnaf categories without exception. This is in line with Islamic legal principles on the management of trust-based property (amanah).*
Informant 2	*Negative public perception may arise due to limited understanding of how zakat is being invested. Media may misrepresent investment as "spending asnaf's money". Institutions must proactively educate the public, using real examples like Kedah's involvement in wakaf padi mill projects.*
Informant 3	*Based on the informant, zakat institutions should:*

	• *Adopt transparent systems like Zakat On Touch, where contributors can track their payments and see the outcomes.* • *Maintain clear governance structures that involve external and religious authorities.* • *Ensure consistent communication and engagement with the public to address concerns and maintain credibility.*

Informant 4	*Preventing loss of public trust:*
	• *Trust is fragile. Even minor negative news (e.g., Selangor's Shopee case) can cause significant backlash, despite having no Shariah issues.*
	• *Institutions must:*
	    ○ *Respond swiftly to public perception.*
	    ○ *Avoid partnerships that appear controversial.*
	    ○ *Conduct risk-impact studies before launching new initiatives.*

Asnaf Benefit & Future of Zakat Investment	
Interviewer	8. How do you think zakat fund investments can benefit the asnaf community in the long term?
Informant 1	*Investing zakat funds creates a continuous income stream that can support asnaf even when zakat collections are low. This helps to stabilize aid distribution during economic downturns, ensuring that asnaf are not left vulnerable due to a sudden drop in public contributions. Instead of repeatedly giving consumable aid,*

	investments allow zakat institutions to develop empowerment programs, such as entrepreneurship, vocational training, and micro-credit schemes. This encourages asnaf to generate their own income, helping them graduate from zakat dependency. Returns from investments can be used to develop infrastructure such as affordable housing for asnaf, educational institutions, and commercial spaces. These not only benefit asnaf directly but also create job opportunities, improve social mobility, and uplift their quality of life.
Informant 2	*Distribution isn't rigid. The mechanism is based on ijtihad and contemporary context. The aim is not merely to provide temporary aid but to empower asnaf to exit poverty, e.g., through strategic investment. Asnaf receiving help since 2018 and still needing it is not ideal; investment aims to break this cycle.*
Informant 3	*Zakat investment—if well-managed—can:* • *Empower asnaf economically through job creation or income-generating programs.* • *Support sustainable development projects, such as education or housing.* • *Reduce long-term dependency on zakat by transforming asnaf into productive contributors.* *The video indirectly supports this by showing how digitalization and proper planning streamline disbursement, ensure accountability, and focus on impactful programs.*

Informant 4	*Long-term benefit for asnaf:* • *Programs such as education access, agriculture tools, training lead to economic self-sufficiency.* • *Using fisabilillah allocations, LZNK builds capital infrastructure for asnaf (e.g., schools), which is more sustainable than cash handouts.*
Interviewer	9. Finally, how do you view the necessity of implementing zakat fund investment as a financial instrument to enhance the zakat pool, especially considering that zakat institutions have traditionally relied solely on public contributions?
Informant 1	*The informant describes zakat investment as an important tool for broader social objectives, not just for immediate consumption. He highlights examples like MAIWP and Perlis, where investment returns have been used to provide free education and support economic empowerment. This shifts the function of zakat from merely giving to developing, aligning with the maqasid al-Shariah to uplift the ummah. He also argues for the need to preserve capital (amanah) before seeking growth. A preserved capital base ensures readiness in emergencies and serves as a financial cushion for the future. Once that reserve is secure, capital growth through investment becomes necessary to expand the reach and effectiveness of zakat.*
Informant 2	*Researchers play a role in developing the understanding and theory, while zakat institutions manage and disseminate. Collaboration*

	between academia and practice is needed to strengthen public trust and operational effectiveness. Investment is a complementary mechanism to distribution, not a replacement. If implemented with integrity, knowledge, and transparency, it preserves the spirit of zakat while ensuring its longivity and sustainability.
Informant 3	*The necessity is growing, especially when:* • *Zakat collections fluctuate, like during the COVID-19 crisis (as mentioned in other sources).* • *Public trust demands visible impact and transparency. Investment becomes necessary to diversify and grow the zakat pool, provided it adheres to:* • *Shariah principles,* • *Preserves capital, and* • *Maintains the rights of asnaf as the primary beneficiaries.*
Informant 4	• *Mr Hazwan believes zakat will continue to be relevant as long as there are wealthy Muslims. However, collection isn't guaranteed without good governance.* • *In future, if multi-party collection (like Indonesia's BAZNAS model) is allowed, trust and service quality will determine who retains public support.* • *Therefore, long-term sustainability may require diversification, including wakaf, sadaqah, and stronger fund management strategies.*