# THE GROWTH TREND OF ZAKAT COLLECTION BASED ON GOLD PRICE, NISAB AND MACROECONOMIC VARIABLES

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**Abstract**

*Zakat as the third pillar of Islam forms social security for the poor and needy. Zakat also develops a balanced economic growth through redistribution of wealth in society, to purify wealth and for spritual development. Zakat is an instrument fund that is so dynamic and recognized as one of the proper methods to measure the economic growth. This paper analyzes percentage growth trend of the zakat collection in Selangor based on gold price, nisab, Gross Domestic Products (GDP) and Inflation Rate. Percentage growth of each zakat collection, gold price, nisab rate and macroeconomic variables are illustrated graphicaly to show the yearly trend of zakat collection in relation to gold price, nisab and macroeconomic factors. Based on the growth trend, macroecnomic factors such as GDP shows an increasing positive trend together with zakat collection and inflation shows an increasing negative trend together with zakat collection. Nisab on zakat collection also shows an increasing negative trend together with zakat collection. The findings support the fact that zakat collection moves in trend in relation to other external factors such as GDP and inflation and internal factors such as nisab on zakat collection. The percentage growth trend quantifies the rate of growth over a specified period, thus zakat institution can predict future zakat collection based on the nisab and macroeconomic factors. The percentage growth trend in zakat collection can be used to plan for zakat distribution to Asnaf (beneficiaries) more efficiently especially during economic crisis period such as Covid-19. The zakat collection growth trend is an important financial planning measure to sustanin socio-economic justice and equitable distribution of income and wealth of a nation.*

Keywords : *Zakat collection, Zakat distribution, Gold Price, Nisab, GDP, Inflation Rate*

## INTRODUCTION

Zakat is where Muslim contributes his or her wealth by the specific requirement to the qualified beneficiaries (*Asnaf*). Zakat also becomes an obligatory action to every Muslim in this world with an objectives to fight against poverty and imbalance over economics and social problems. Zakat can help eradicate poverty and improve the living standard of the poor and needy (Muhtadi, Laila & Nur, 2019; Eko, 2020). This is especially true if zakat collection and distribution are managed efficiently and channeled for productive and sustainable means. In Malaysia, Zakat collection and distribution are managed by Zakat institutions in each state of Peninsular Malaysia including Sabah and Sarawak. Zakat institution manages the collection and distribution of zakat in each state.

The zakat is an obligatory duty to a Muslim once the amount of wealth reaches the least level of nisab. The level of nisab is determined by the gold price fluctuation in the world market (Muhammad Pisol, Azhan Rashid & Azhar, 2018). The price of gold as a measurement of determining the nisab is mainly due to the demand and supply in the world market and the amount of nisab is varies for each of the years. Accordingly, some researcher has approved that gold is the most suitable items as compared to other commodities (Ahmad Kameel, 2003; Salmy Edawati, 2009). As gold price is utilized as a nisab benchmark, it will influence the collection of zakat. Due to that, it will lower the contribution of zakat if the gold price (nisab rate) increases and will decrease the amount of zakat distribution.

Gold price is used to estimate the *nisab* benchmark (threshold, referring to the minimum amount of wealth and possession that a Muslim must own before being obligated to pay zakat) on zakat collection. Thus, it is expected that the higher the gold price the higher the nisab and the lower the zakat collection (Azhan Rashid, Muhammad Pisol, Muhammad Akramin & Husna, 2018). On the other hand, the lower the gold price the lower the nisab, and the higher the zakat collection. As a result, it is also expected that the proportion for zakat distribution to each beneficiary *(Asnaf)* will also lower (higher), respectively. Other than the gold price, macroeconomic factors such as Gross Domestic Product (GDP) and inflation rate are expected to influence the zakat collection. The negative influence of inflation the amount of zakat is in accordance with the theory of the impact of inflation which explains that rising inflation will increase the price of goods so that the value of the currency will decrease and ultimately will reduce peoples' purchasing power (N. Grengory, 2007). Thus, an increase (decrease) in the inflation rate will decrease (increase) household and business income too. An increase (decrease) in GDP will expand (contract) the economy hence, will increase (decrease) household and business income Thus, the productivity growth in economy sectors will influence household and business income. As household and business income is connected to the economic condition, the Gross Domestic Product (GDP) and inflation of a country is likely to influence zakat collection (Mohammed, 2011). In short, any changes in these macroeconomic factors will either increase or decrease zakat collection (Mohammed, 2006).

Therefore, the objective of this study is to analyze the growth trend in zakat collection based on the changes in the gold price, *nisab*, GDP, and Inflation Rate.

## LITERATURE REVIEW

According to Suhaili & Nor 'Azzah (2009) some contemporary Islamic economics suggest that zakat be used as a source for income generator to make the poor become more economically independent. Therefore, zakat collection and distribution should be properly managed by the Islamic states (*Amil)* to avoid any misapplication. In this context, zakat is a religiously-motivated economic instrument through which the surplus wealth of society is taken out to satisfy the essential needs and encourages entrepreneurial behavior among those who are not fortunate enough to have wealth of their own. Thus, zakat is one of the tools under wealth distribution planning to address some major socio-economic problems such as poverty alleviation, unequal distributions, weak economic growth, and social problems.

Zakat institution plays a role as a fund manager and as fund managers they also should have financial planning in managing cash inflows (collection) and cash outflows (distribution) but for the purpose of public welfare (*Maslaha*). During a good economy, it is expected that Zakat collection will increase and the money will be distributed to beneficiaries (*Asnaf)* accordingly. During a bad economy, it is expected that Zakat collection will decrease and the number of beneficiaries (*Asnaf)* will increase due to unemployment and increasing cost of living. Therefore increasing the inflation rate will decrease an individual income due to increasing price in goods and hence will decrease the amount of zakat collected (Sheema Haseena, 2020). An income is connected to economic conditions. The bad economic condition will decrease the income and likely to influence zakat collection (Ramdani & Kusnendi, 2019). Thus, Zakat institution should have some reserves to cater the unexpected demand from those who are greatly affected by the economic crisis. This financial planning process is mentioned in surah Yusuf (47-48*): [(Yûsuf (Joseph)] said: "For seven consecutive years, you shall sow as usual and that (the harvest) which you reap you shall leave it in ears, (all) - except a little of it which you may eat. (47) "Then will come after that, seven hard (years), which will devour what you have laid by in advance for them, (all) except a little of that which you have guarded (stored) (48).* Allah SWT stresses the importance of good financial planning where people must keep and save their abundant wealth in the seven period of good harvest and be prepared for the seven periods of dreadful years. Shariah has incorporated measures such as zakat to maintain a balanced society while waqaf and wasiyyah to ensure healthy circulation of wealth, value preservation, and protection from prohibited activities.

The objective of zakat is to eliminate poverty through wealth creation and accumulation combined with fair redistribution (Ahmad Kameel, 2003). Zakat is a wealth-creating institution are responsible for planning their zakat fund as a strategy to accumulate wealth and increase the amount of distribution. According to Abdul Azeez (2014), financial planning is not just merely a process of acquisition and accumulating wealth but it has a broad definition that relates to the concept of vicegerent (*Khalifa*). Financial planning is an act of worship (*Ibadah*) thus, wealth is viewed as a trust (*Amanah*) from *Allah SWT* that must be administered properly to achieve success in this world and the hereafter (*al-Falah*). As Muslim, even though a person does not possess any form of wealth, he still has to commit to the financial planning process because either he would earn a living or live in poverty forever. One of the main aims of financial planning is to mitigate poverty by integrating financial planning skills and knowledge with traditional financial planning tools such as zakat. Amalina & Junaina (2013) argue that under wealth distribution planning, the role of zakat, waqaf, and wasiyyah plays an important role to circulate wealth to guarantee balanced and sustainable socio-economic development.

Since Zakat must be administered properly, *Amil* (Zakat institution) should manage Zakat collection and distribution efficiently to provide sustenance to the economically unfortunate beneficiaries (*Asnaf)*. To be efficient, the Zakat institution is expected to practice the Islamic financial planning process especially in collecting and distributing Zakat to the needy beneficiaries (*Asnaf*). The significance of zakat is largely attributed to its effectiveness as a distribution tool in the process of wealth circulation and social security (Izatul Akmar & Muhammad Nasri, 2017). Therefore, effective management of zakat collection and distribution is very important to improve the quality of life and alleviate the poverty of recipients. Another study by Wahid, Ahmad, Hairunnizam, S. Ahmad, Mohd Ali & Maryam (2017) suggests that the inefficiencies of zakat distribution might be seen through the amount of surplus fund of zakat undistributed every year and the institution not able to distribute the zakat fund to the eight *Asnaf* as well as not distributed based on the priority of *Asnaf.*

The obligation of Zakat is mandatory on every Muslim who possesses the minimum *Nisab* (exemption limit or criterion of Zakatability) of wealth that enjoys growth or is a result of a growth process, whether the person is man, woman, young, old, sane or insane (Yusuf Al Qadawi, 1999). The beneficiaries (*Asnaf)* of Zakat are mentioned in *surah Taubah* (verse 60): *The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarer; a duty imposed by Allah. Allah is Knower, Wise.*

Gold and silver are two market traded commodities that determine the *Nisab*. As a result, the *Nisab* on zakat will be influenced by the floating price of these two commodities (Muhammad Bashir, Ahamed Kameel & Gairuzazmi, 2010). As the gold price increases (decreases), the *Nisab* is expected to increase (decrease). As traded commodities, it is argued that gold and silver can be easily manipulated by market players such as speculators and will lead to price instability. Thus, some researchers suggest that *Nisab* could respond to the cost of living that measures the real standard of living of household consumption especially to the poor and needy. To render justice to the society, Prophet Muhammad (saw) allows certain changes to benefit a society that allowed the zakat institutions to expand (Mek Wok & Sayed Sikandar, 2008) but should be consistent with the principles of al Quran and hadith.

## METHODOLOGY

The percentage growth trend quantifies the rate of growth over a specified period. Therefore, this study measured the growth trend of zakat collection based on the gold price, nisab rate, GDP, and Inflation Rate. This study is considered as an exploratory in obtaining information about zakat collection growth in Lembaga Zakat Selangor (LZS). Lembaga Zakat Selangor (LZS) is chosen as sample data due to the highest total zakat collection and distribution achieved compared with other states in Malaysia. Furthermore, LZS is situated in Klang Valley area which is highly populated and is the center for economic activities and contributes the highest to Malaysia's gross domestic product (GDP). Secondary yearly data such as total zakat collection and distribution from 1990 - 2019 (30 years) are taken from LZS's annual reports. Gold price and *Nisab* rate for 30- year period are collected from LZS's website. Macroeconomic data for 30 years are taken from the Department of Statistic Malaysia. To observe the growth trend in zakat collection based on the gold price a, *Nisab*, macroeconomic variable, all the values are transformed into percentage growth.

$$(P_1 - P_0) / P_0 \times 100$$

## RESULT AND DISCUSSION

Figure 1 shows the percentage growth of zakat collection and distribution in Selangor from 1990-2019. Percentage growth in zakat distribution is higher than percentage growth in zakat collection except in the year 1998, 1999, 2008, 2011, and 2017. This is further supported by the 30-year average percentage growth for zakat distribution (22.95) which is higher than the 30-year average percentage growth for zakat collection (19.23). It is believed that the financial crisis 1997/1998, global economic crisis 2008/2009, and the recent pandemic covid-19 crisis slow down the total zakat collection thus, the total zakat distribution will also be affected. The highest percentage growth in zakat collection is in 1996 (80.09%) and the lowest in 1999 (-5.62%). The highest percentage of growth in zakat distribution is in 1994 (94%) and the lowest in 2017(-11.6%).

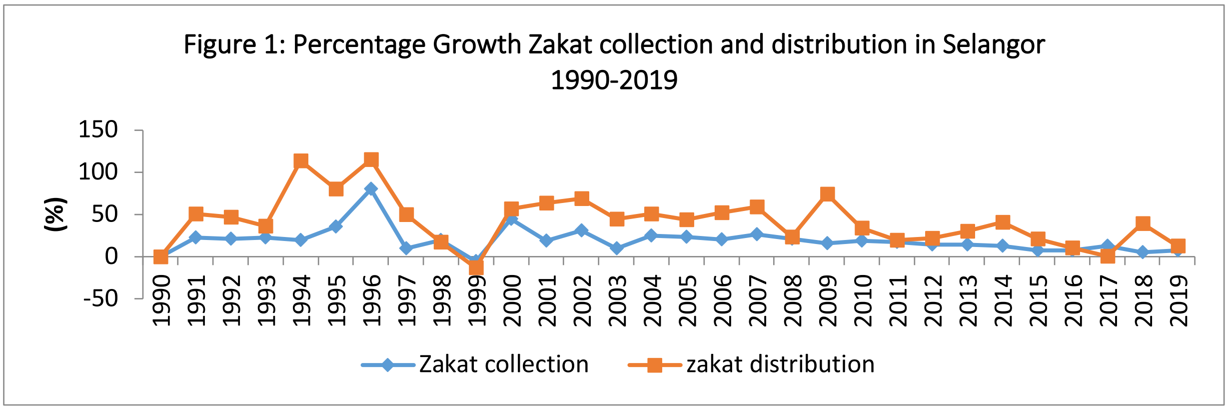



Figure 2 shows the percentage growth of the *Nisab* rate and gold price from 1990-2019. From 1990 to 1994 the percentage growth of *Nisab* rate does not change at all even though the gold price decreases in 1991. Starting 1995 the percentage growth of gold price and *Nisab* rate have been fluctuating. The highest percentage growth in the gold price achieved is in 2007 and the lowest in 2014 while the highest percentage growth in *Nisab* rate achieved is in 2007 and the lowest in 2001. There are situations where percentage growth in gold price increases (decreases) but the percentage growth in *Nisab* decreases (increases) such as in 1998-2001, but from 2002-2019 the percentage growth in the gold price and *Nisab* moves together.

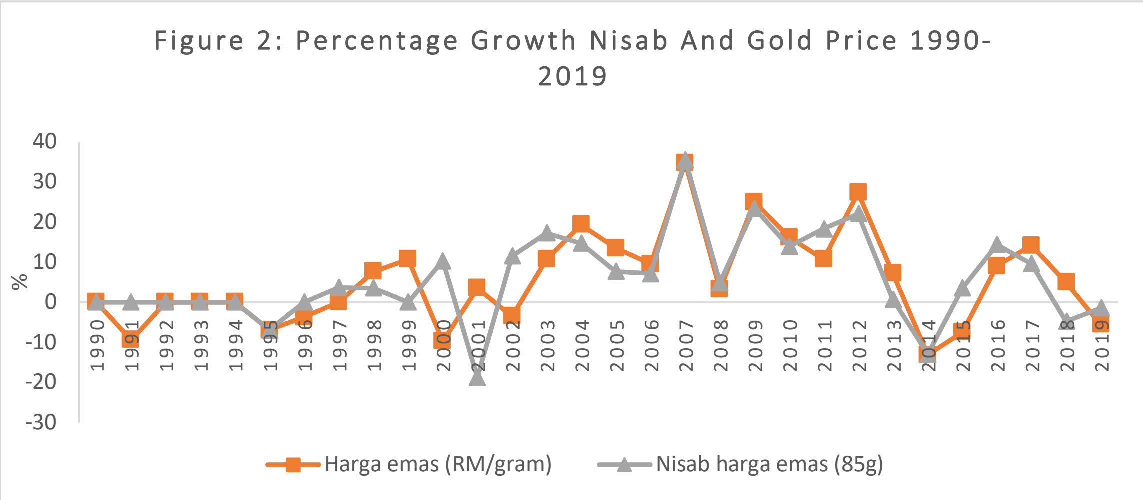


Figure 2: Percentage Growth Nisab And Gold Price 1990-2019

Figure 3 shows the percentage growth of zakat collection Gross Domestic Product (GDP) and Inflation from1990-2019. The highest growth of zakat collection is in 1996. The growth achieved is based on a good economic condition where increasing growth in GDP and decreasing growth in inflation. The lowest growth of zakat collection is in 1999 which is due to the effect of the financial crisis in 1997/1998. It is believed that during the financial crisis 1997/1998, GDP growth decreases an inflation growth increase. Such situation also happens during the global economic crisis 2008/2009 and the recent pandemic covid-19 crisis will also slow down the total zakat collection.

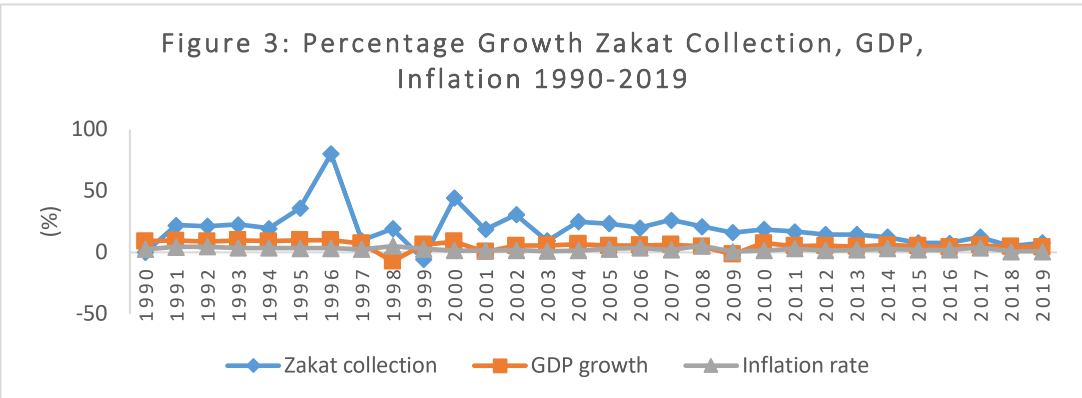
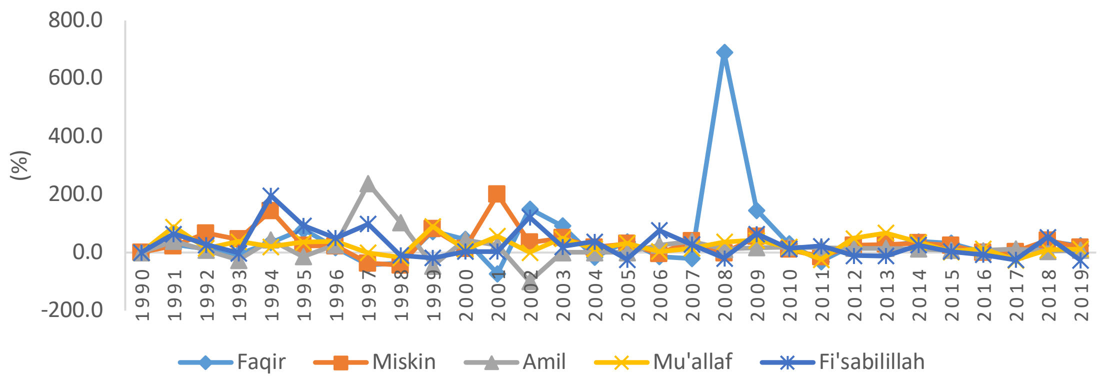


Figure 3: Percentage Growth Zakat Collection, GDP, Inflation 1990-2019

Figure 4 shows the top 5 asnaf recipient which is from asnaf faqir, miskin, amil, fisabillilah, and muallaf where *Asnaf* fakir and miskin represent the highest receivers of zakat which contribute more than 50% of the total distribution. The demand is reported to be higher especially during the economic crisis such as in year 1997/1998 due to the decrease in GDP and the increase of inflation rate. The number of faqir and miskin asnaf in Selangor is about to increase year by year, especially during the economic crisis. Thus, its view that economic conditions have influenced the number of zakat recipients. The percentage growth in zakat distribution for fakir is the highest (lowest) in 2008 (2001) and for miskin in 2001(1998). LZS as an Amil receives the highest percentage growth of zakat distribution in 1997 and the lowest in 2002. The highest allocation of zakat to mu'allaf is in 1999 and the lowest in 2017 while to *fi'sabilillah* the highest in 1994 and the lowest in 2017.

Figure 4: Percentage Growth Top 5 Asnaf Zakat In Selangor 1990-2019




Based on the trend analysis, a general observation on the collection and distribution of zakat in Selangor shows that the growth of zakat collection is based on the gold price, nisab, and macroeconomic factors. The collection and distribution of zakat are done randomly and most of the time is based on the highest recipient needs, economic condition, and application for zakat from potential *Asnaf*. Thus, it shows that there is no specific guideline followed by LZS. During the financial crisis in 1997/1998, the highest percentage growth in zakat distribution goes to *Asnaf Amil* but the lowest goes to *Asnaf* Fakir. Logical justification for this is maybe due to lower zakat awareness on zakat distribution to *Asnaf* fakir and miskin, LZS as *Amil* has to spend more funds in awareness campaign to better manage the zakat collection and distribution. In contrast, in the global crisis 2007/2008, the highest goes to asnaf Fakir and the lowest to *Asnaf Fi'sabilillah*. This scenario is more logical as zakat awareness campaign has reached the targeted potential *Asnaf*.

## CONCLUSION

In general observation on the collection and distribution of zakat in Selangor shows that there is no specific guideline or pattern followed by LZS. The collection and distribution of zakat are done randomly and most of the time is based on the highest recipient needs, economic condition, and application for zakat from potential *Asnaf*. Percentage growth for zakat distribution is greater than percentage growth for zakat collection except during the financial crisis. This is evidence to show that LZS does not distribute all the total zakat collection for the current year due to late payment received from zakat payers. Thus, the amount will be brought forward to the following year to be distributed to *Asnaf*. During the financial crisis, total zakat collection is expected to be lower than the previous year thus, the total amount of zakat collection is expected to be distributed and fully utilized to meet the increasing needs from the *Asnaf*. The above explanations conclude that financial planning for zakat management is a vital requirement to plan for wealth accumulation and savings during a good economy and prepare reserves and protection for zakat collection shortages during bad economy such as pandemic covic-19. Proper financial planning on the timing when the impact of gold price and nisab on zakat collection will help to solve the increasing needs from *Asnaf* during a difficult period

The growth trend in zakat collection as determined by gold price, *Nisab,* and macroeconomic factors, view that the same trend can be forecasted to repeat itself in the future. This means when there is an increase (decrease) in the gold price, nisab, and macroeconomic factors, the impact on the growth zakat collection will increase (decrease). Thus, LZS as an Amil should have proper financial planning to prepare for the worst-case scenario such as the financial crisis and pandemic covid-19 crisis. Thus, as suggested by surah Yusuf (verse 47-48), LZS can plan for bigger savings during a good economy to cover the increasing demand from existing and potential *Asnaf* during the crisis period.

The role of Islamic wealth distribution instruments such as zakat in Islamic financial planning is important to enhance the socio-economic of Muslim society. *Amil*, such as LZS needs to properly plan in collecting and distributing zakat. As suggested by a financial planner, if we fail to plan then, we plan to fail. Therefore, it is important to have proper and effective financial planning as zakat largely attributed to its effectiveness as a distribution tool in the process of wealth circulation and social security. In conclusion, effective management of zakat collection and distribution is very important to improve the quality of life and alleviate the poverty of recipients. Future research would include more variables as an input or output to test for the efficiency in zakat collection and distribution.

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