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Abstract
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Keywords
Religious Institutions | Islamic Economics

Disciplines
Other Economics | Regional Economics

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INTEGRATING ZAKAT WITH DEVELOPMENT IMPACT BOND (DIB): ASSESSING POSSIBLE APPROACHES TO MAXIMIZING IMPACT FROM ZAKAT INVESTMENT

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ABSTRACT

Zakat is one of the five pillars of Islam and forms the foundation of Islamic economic system. The practice of zakat combines both the elements of ritual and revenue-raising. From zakat payers’ perspectives, paying zakat is a ritual act intended to purify their wealth. From a system of revenue-raising perspective, the main objective of zakat is to alleviate the hardships of zakat recipients, particularly the poor. We discuss the purposes of zakat and the historical development of zakat administration and management in Malaysia. We examine the current challenges and criticisms of zakat distribution and propose an integration between zakat and development impact bond as an approach to maximizing impact from zakat investment.

KEYWORDS

Religious Institutions | Islamic Economics
INTRODUCTION

Religious belief is a common human characteristic. Religious principles and practices have the potential to contribute positively to sustainable development. In Islam, zakat is one of such practices. Zakat is one of the five pillars of Islam and forms the foundation of Islamic economic system. The Encyclopedia of Islam defines zakat as “the obligatory payment by Muslims of a determinate portion of specified categories of their lawful property for the benefit of the poor and other enumerated classes” (Zysow 2012). The practice of zakat combines both the elements of ritual and revenue-raising. From zakat payers’ perspectives, paying zakat is a ritual act intended to purify their wealth. From a system of revenue-raising standpoint, the primary objective of zakat is to raise fund to alleviate the hardships of zakat recipients. In 2013, the total zakat collection in Malaysia exceeded RM2.2 billion (Zakaria, Ammar, and Ahmad Dahlan 2016).

Impact bond is an innovative financial tool that enables outcome funders to pay only for programs that deliver intended results. An impact bond falls under “Pay for Success” financing category. A development impact bond (DIB) is a type of impact bond in which private investors provide upfront capital to service providers to deliver social outcomes. Outcomes funders guarantee payments to investors if and only if the interventions succeed in achieving agreed outcomes, often validated by independent auditors. Fundamentally, returns to investors are linked to the extent to which agreed outcomes are achieved.

Despite the similarities in the missions and roles of zakat and DIB as financial tools for sustainable development, there have been very few studies that attempt to evaluate a possible integration between both financial instruments to maximize their impact on sustainable development. Furthermore, recent news on cases involving the embezzlement of zakat funds call
into question the transparency and trustworthiness of zakat institutions and highlight the need to consider alternative approaches to maximizing zakat investment (The Star Online 2017).

The paper is structured as follows. Section 2 provides an overview of zakat and zakat administration and management in Malaysia. Section 3 provides an overview of development impact bonds. Section 4 discusses the potential integration between zakat and development impact bond. Section 5 explores the potential applications of the zakat distribution model via development impact bond. Section 6 concludes the paper and provides recommendations for future studies.

II. OVERVIEW OF ZAKAT

Definition of Zakat

Zakat is an Arabic word derived from the word زﻛﻰ or زﻛﻮ which means to grow, to increase, and to be pure. Zakat literally means growth, purity, integrity, honesty, and righteousness (Wehr and Cowan 2012, 441). According to Qaradawi (1999), zakat means payments that are required by Allah to be given to those who are entitled. Zysow (2012) describes zakat as the obligatory payment for the benefit of zakat recipients. There are two primary forms of zakat, namely zakat al-mal and zakat al-fitr. Zakat al-mal or zakat of wealth is “the portion, or amount, of property, that is given, as the due of God, by its possessor, to the poor, in order that he may purify it” (Lane 1865, 1247). In contrast, zakat al-fitr is “payment due on behalf of all Muslims, male or female, minor or adult, slave or free, in connection with the termination of the fast of Ramadan” (Zysow 2012).

The recipients of zakat fall into eight categories as enumerated in Chapter 9 verse 60 of the Quran that states the following:
Zakat expenditures are only for the poor and for the needy and for those employed to collect [zakat] 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] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise (Al-Quran al-Kareem, Surah At-Tawbah [9:60])

The first two groups of zakat recipients are the poor and the needy, though some Islamic scholars regarded the two groups as a single class. In the Malaysian context, the household income for the poor is below RM520 a month while the household income for the needy is below RM830 (Economic Planning Unit, Prime Minister's Department 2010). The third group of recipients is ‘those employed to collect [zakat].’ Muslim scholars agree that zakat can be allocated to cover the administrative costs of collecting and distributing zakat (Powel 2009, 49). The fourth category of recipients is converts to Islam. This group, according to the Shafi’i school, includes converts whose enthusiasm is in doubt and prominent converts who will be able to win over others (Zysow 2012). The fifth and sixth allocations of zakat are for freeing of slaves and captives and assisting those burdened by debt. The seventh and eight categories of zakat recipients include students, defenders of religion, and travelers.

**Objectives of Zakat**

Zakat is a hybrid between the elements of human spirituality and human affairs. The objective of zakat is twofold. First, zakat purifies the souls of zakat payers and makes them grow spiritually (Khaf 1999). This objective of zakat is clearly specified in Chapter 9 verse 103 of the Quran that states the following:
Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase, and invoke [Allah’s blessings] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing (Al-Quran al-Kareem, Surah At-Tawbah [9:103]).

The word tazkiyat, which can be derived from the same word as zakat, literally means purification, sanctification, and chastening. Zakat is both a reminder that the real owner of wealth is God and an expression of gratitude for God’s bounties (Abu Bakar and Abdul Rahman 2007, 34). As the third pillar of Islam, zakat is an essential act of worship that purifies the heart from worldly attachment and influence.

Yet, the principle of zakat distribution, which outlines the eight categories of zakat recipients, highlights the other fundamental objective of zakat which is the achievement of socio-economic justice. Khaf (1999, 13) argues that zakat allows for redistribution of wealth and income in the society through a transfer payment from the rich to the poor. Zakat is an integral part of the Islamic social security system to help the less privileged groups (Abu Bakar and Abdul Rahman 2007, 33). Zakat, if implemented effectively and efficiently, has the potential of addressing the problem of poverty and inequality in the society.

**Historical Development of Zakat Administration and Management in Malaysia**

Islam first arrived in the Malay Archipelago sometime between the 13th and 14th CE, via Arab and Indian traders (Islam in Malaysia, n.d.). During the pre-colonial period, zakat payment was considered a personal religious duty (Sarif, Kamri, and Ali 2013, 4). As such, zakat administration was not managed via any formal framework (Ab Rahman, Alias, and Syed Omar 2012, 37). Muslims paid zakat via informal channels such as delivery of goods to religious
teachers and scholars. They later distributed zakat proceeds to anyone who they deemed to fall under the eight categories of zakat recipients (Htay and Salman 2014, 154).

During the British colonial period, the segregation between religion, custom, and secular matters was imposed by the British administration. All the matters concerning Islamic religious practices and traditional Malay customs were administered by a special body known as Majlis Agama Islam Negeri (MAIN) or State Islamic Religious Councils (SIRC) (Ab Rahman, Alias, and Syed Omar 2012, 37). SIRC s later became the main institution that administered and managed the collection and distribution of zakat (Htay and Salman 2014, 154). The first SIRC was established in 1916 in Kelantan, which became a model of zakat administration and management for other states. Under this model, the Religious Council became the authoritative body for governing the collection and distribution of zakat. A similar model was later adopted in Perlis in 1930, Johor in 1934, Kedah in 1936, Selangor in 1952, Pahang in 1956, Penang and Malacca in 1959, and the Federal Territory in 1974 (Sarif, Kamri, and Ali 2013, 4).

In the 1990s, the privatization and corporatization of zakat administration and management took place. In 1991, the Islamic Religious Council of the Federal Territory (MAIWP) endowed a mandate to Syarikat Hartasuci Sdn. Bhd. to manage all forms of zakat collection (Sarif, Kamri, and Ali 2013, 8). The privatization of zakat administration and management allows the subsidiary corporation to manage the human resource for the collection of zakat, to utilize technology in all transactions, and to set up governance that encourages effectiveness and efficiency of zakat administration (Ab Rahman, Alias, and Syed Omar 2012, 38). Such an initiative was later followed by Selangor and Penang in 1994, Pahang and Malacca in 1996, and Negeri Sembilan in 1998 (Sarif, Kamri, and Ali 2013, 8).
Current Challenges and Criticisms of Zakat Distribution in Malaysia

The collection of zakat has been increasing over time. By the end of the 1980s, the collection of zakat in Malaysia was less than RM20 million (Sarif, Kamri, and Ali 2013, 6). In 2013, the collection of zakat exceeded RM2.2 billion (Zakaria, Ammar, and Ahmad Dahlan 2016). In contrast, the distribution of zakat has made little progress. Zakat payers are dissatisfied with the state of zakat distribution and, consequently, some refuse to pay zakat (Wahid, Ahmad, and Abdul Kader 2009, 89).

Various studies attempt to explain the main reasons for the inefficiency of zakat distribution. Wahid, Ahmad, and Abdul Kader (2009) argue that the current distribution methods are ineffective and the dissemination of information on zakat distribution is insufficient. Md Ramli et al. (2011) found that zakat distribution method is still focusing on the periodical form of transfer payment. Therefore, it is incapable of producing zakat recipients who are independent and capable of supporting themselves and their families.

Also, Saad, Abdul Aziz, and Sawandi (2014) highlight the issue of the surplus of zakat that is not distributed to zakat recipients. In 2009, RM176.1 million of zakat was not distributed (Saad, Abdul Aziz, and Sawandi 2014, 509). Despite having a considerable amount of zakat surplus, Ab Rahman, Alias, and Syed Omar (2012) found that there were public complaints that zakat distribution failed to reach the rightful recipients, often due to the lack of publicity and complex application procedures. The current zakat distribution method also incentivizes the culture of dependency on zakat among zakat recipients (Ab Rahman, Alias, and Syed Omar 2012, 40).

With regards to the current state of zakat distribution, Mohd Noor et al. (2015) claim that zakat institutions have yet to realize their full potential due to the inexistence of performance
measurement system and weaknesses in corporate governance practices, supervision, and regulation (15).

**Prior Studies on Ways to Overcome the Inefficiency of Zakat Distribution in Malaysia**

To overcome the inefficiency of zakat distribution in Malaysia, Abu Bakar and Abd Ghani (2011) recommend a more self-sustained mechanism of zakat distribution in the form of monetary capital and equipment (237). Md Hassan, Mohd Nor and Mohd Rom (2012) propose a collaboration between zakat institutions and microfinance institutions via microfinance programs for the poor. They argue that the modus operandi of microfinance is a more effective method in distributing zakat via business and capital assistance programs.

Mohd Noor et al. (2015) argue that there is a need for performance measurement, supervision and accounting standards, and corporate governance to revitalize zakat administration and management (15). To improve the accountability of zakat institutions, Saad, Abdul Aziz, and Sawandi (2014) proposes a new Islamic accountability framework, driven by the Islamic principles, which emphasizes both the relationship between human and Allah and the relationship between human and other mankind in the zakat administration. In addition, Htay and Salman (2014) claim that there is a need for financial information disclosure guidelines for zakat institutions to regain the confidence of zakat payers in the process of zakat collection and distribution (153).

As the numbers of zakat payers and recipients keep growing over time, Sulaiman and Jamil (2014) emphasize the need for an information security governance model for the management of zakat information. Their study identified contributing factors to the information security governance goal alignment and information asymmetry reduction. Lubis et al. (2011)
recommend the adoption of the geographic information system to improve the efficiency of zakat collection and distribution. They argue that adopting the geographic information system will enhance data management, decision making, and transparency of zakat institutions. Adnan, Kamaluddi, and Kasim (2013) highlight the importance of intellectual capital in influencing the performance of zakat institutions. They argue that aptitudes, experience, and skills of human resources are essential in enhancing the efficiency of zakat institutions (368).

III. OVERVIEW OF DEVELOPMENT IMPACT BOND

Definition of Development Impact Bond

Modeled on Social Impact Bonds (SIBs), DIBs are a new financial tool aimed to foster multi-stakeholder partnerships among the diversity of developmental players by leveraging on the resources and expertise of each player to improve the effectiveness and efficiency of social programs (Development Impact Bond Working Group 2013, 17).

DIBs are created to address the current funding problems that include poor targeting of resources, lack of incentives to focus on outcomes, short-term funding focus, lack of innovation and adaptation, and lack of evidence to inform decision-making (Development Impact Bond Working Group 2013, 18-19). DIBs, in contrast, aim to align funding with social outcomes, hence shifting the focus of development funding from inputs and processes to outputs and outcomes (Development Impact Bond Working Group 2013, 20). If successfully implemented, DIBs have the potential to transform neglected social problems into investible opportunities, introduce market rigor to development programs, and create incentives for long-term funding focus (Development Impact Bond Working Group 2013, 22).
Development Impact Bond Stakeholder

DIBs bring together multiple stakeholders, including outcome funders, investors, service providers, verification agents, and intermediaries, drawing on the best contributions of each towards achieving desired social outcomes. The following are the roles of the diversity of players within DIBs.

**Outcome Funders**

Outcome funders are responsible for paying investors if and only if specified development programs succeed in achieving pre-determined social outcomes. Outcome funders also play the role of identifying social issues to be addressed and develop a DIB-funding model. In addition, outcome funders can take an active role in monitoring program outcomes and authorizing payments to investors accordingly (Development Impact Bond Working Group 2013, 86).

**Investors**

Investors are responsible for providing upfront capital funding to service providers. Investors receive financial returns if specified development programs succeed in achieving pre-determined social outcomes. To manage their investment risk, investors are incentivized to bring discipline to service delivery and rigor to performance management and outcome measurement (Development Impact Bond Working Group 2013, 88; Burand 2013, 453).

**Service Providers**

Service providers are responsible for delivering interventions to achieve desired social outcomes. Service providers are commissioned by investors, often based on past performances in delivering the social outcomes. Service providers are responsible for documenting and reporting program inputs, processes, outputs, and outcomes (Development Impact Bond Working Group 2013, 89; Burand 2013, 453).
Verification Agents

Verification agents are responsible for auditing and verifying delivery of the pre-determined social outcomes. Based on verification agents’ assessments, outcome funders will make payments to investors if the desired outcomes are achieved (Development Impact Bond Working Group 2013, 89; Burand 2013, 453).

Intermediaries

Intermediaries are responsible for bringing all stakeholders together by negotiating contracts that meet the needs of the different players engaged in DIB transactions. Their roles include feasibility assessment, due diligence, contract development, capital raising, service commissioning, capacity building, and performance management (Development Impact Bond Working Group 2013, 89; Burand 2013, 453).

Stages of Development Impact Bond Development

The development of DIBs requires extensive collaborations between DIB stakeholders. The following are the stages of the development of DIBs.

Idea Generation

DIBs can be developed when there is an agreement between interested parties to explore specific development issues. DIB stakeholders may propose potential DIBs that meet the needs of outcome funders for further discussion and due diligence (Development Impact Bond Working Group 2013, 91).

Scoping Work

Once common interests between DIB stakeholders are established, outcome funders can begin defining development issues, required interventions, and outcome metrics to be used in DIB
contracts. Outcome funders may work on scoping these components of DIB contracts themselves or appoint third parties or intermediaries to do research and due diligence on their behalf (Development Impact Bond Working Group 2013, 91).

**Detailed Feasibility**

Once development issues, required interventions, and outcome metrics are defined, outcome funders can start developing the business case that includes operating models, outcomes measurement, payment frameworks, and governance structure. The business case also contains the financial model that quantifies potential costs and benefits of the proposed DIBs (Development Impact Bond Working Group 2013, 93).

**Contracting, Procurement, and Capital Raising**

Outcome funders are responsible for developing and finalizing DIB contracts that include key terms such as the target populations, investment obligations, outcomes metrics, payment mechanisms, reporting systems, and verification processes. Outcome funders will then select service providers to deliver the desired social outcomes. Once DIB contracts are finalized, and service providers selected, outcome funders can commence the process of capital raising to secure commitments for DIB investments (Development Impact Bond Working Group 2013, 95).

**Service Delivery, and Contract and Performance Management**

Once DIB contracts are agreed upon and financial commitments are secured, service providers can begin the intervention programs. To ensure the quality of service providers’ performance, investors are responsible for ensuring efficient contract and performance management by working with service providers to establish systematic monitoring and evaluation systems. Based
on the outcome reports and independent verification processes, outcome funders will make payments to investors accordingly (Development Impact Bond Working Group 2013, 95).

**Development Impact Bond Structure**

DIB stakeholders may decide on appropriate ways to structure DIBs depending on the roles that each intends to play. The following are examples of possible DIB structures.

**Contracting via a New Corporate Entity**

This DIB structure emphasizes the role of a newly established corporate entity to hold contracts with all the DIB stakeholders. Contracting via a new corporate entity ensures greater flexibility to DIB stakeholders to change service providers if they fail to deliver the desired social outcomes or to subcontract with additional service providers if other needs arise (Development Impact Bond Working Group 2013, 96).
Direct Contracting Between Outcome Funders and Service Providers

This DIB structure requires long-established relationships between outcome funders and service providers, often based on service providers’ credentials and past performances in delivering the desired social outcomes. As direct contracting between outcome funders and service providers often involves a sole service provider in delivering the social outcomes, investors may need to
perform greater due diligence on the service provider’s capabilities and performance management (Development Impact Bond Working Group 2013, 98).

IV. POTENTIAL INTEGRATION BETWEEN ZAKAT AND DEVELOPMENT IMPACT BOND

Proposed Zakat Distribution Model via Development Impact Bond

This paper proposes a potential integration between zakat and development impact bonds. The proposed zakat distribution model via development impact bonds utilizes the same DIB

Figure 2: Direct Contracting Between Outcome Funders and Service Providers

Source: Development Impact Bond Working Group 2013, 98
structures, namely contracting via a new corporate entity or direct contracting between outcome funders and service providers, with existing zakat institutions acting as outcome funders and/or commissioners of DIB programs.

**Short-Run Integration: Zakat Institutions as Outcome Funders of DIB Programs**

With the current collection of zakat exceeding RM2.2 billion nationally and increasing over time, zakat institutions in Malaysia have a fair amount of resources at their disposal. In the short run, zakat institutions can act as outcome funders of DIB programs and play an active role in identifying social issues to be addressed, proposing and funding DIB programs, and monitoring program outcomes. The proposed zakat distribution model via development impact bonds with zakat institutions as the outcome funders of DIB programs allows zakat institutions to distribute zakat to rightful recipients via proven social programs. The best DIB structure for this model is contracting via a new corporate entity that will be established specializing in commissioning DIB programs that aim at improving the lives of zakat recipients.

**Long-Run Integration: Zakat Institutions as Commissioners and Outcome Funders of DIB Programs**

Zakat institutions in Malaysia have been very active in the field of social development. With the aim of improving the lives of the eight categories of zakat recipients, zakat institutions distribute zakat using both short-term and long-term funding models. The short-term funding model focuses on assisting entitled zakat recipients with their day-to-day basic needs, such as the provision of food, clothing, and shelter. In contrast, the long-term funding model aims to equip entitled zakat recipients with skills and aptitudes to be independent members of the society, capable of supporting themselves and their families. In the long run, zakat institutions can play an active role in commissioning DIB programs that help to achieve both the short-term and long-
term needs of zakat recipients. The best DIB structure for this model is direct contracting between zakat institutions and service providers. A new division within the current zakat institutions can be established to focus on the tasks necessary in commissioning DIB programs and maintaining long-term relationships with service providers.

**Potential Benefits of The Zakat Distribution Model via Development Impact Bond**

The proposed zakat distribution model via development impact bonds combines the strengths of both financial tools to achieve desired social outcomes. The following are the potential benefits of the zakat distribution model via development impact bonds.

**Result-Based Financing**

The zakat distribution model via development impact bonds encourages result-based zakat distribution by maintaining a focus on the achievement of the desired social outcomes. By tying returns on investment to achievement of social outcomes, the proposed zakat distribution model ensures that zakat institutions only pay for successful social interventions.

**Systematic Performance Management**

The zakat distribution model via development impact bonds brings market rigor to social programs for zakat recipients. Investors and service providers can offer the private sector’s expertise in performance management by establishing systematic monitoring and evaluation systems and robust information and data management systems. Zakat institutions will be able to effectively monitor the return on zakat distribution and proactively disseminate information on zakat distribution to zakat payers.
Multi-stakeholder Partnerships

The zakat distribution model via development impact bonds provides a platform for cooperation between multiple socially-oriented stakeholders. Zakat institutions will be able to work closely with investors and service providers to complement the strengths of each player to achieve the desired social outcomes. In addition, the multi-stakeholder partnerships between the diversity of players will encourage knowledge transfer that zakat institutions can utilize for their future social programs and interventions.

Potential Investors in Development Impact Bonds in Malaysia

Islamic finance has been growing very rapidly in the past several decades. Today, the Islamic finance industry has assets worth more than $2 trillion, growing at a compound annual growth rate of 17% from 2009 to 2013 (Hussain, Shahmoradi, and Turk 2016). The total assets of the Islamic banking industry in Malaysia account for 28% of the banking system and the total net contributions of the Islamic insurance industry account for 14.6% of the total industry premiums and contributions (Central Bank of Malaysia, 2016).

In August 2014, the Securities Commission Malaysia launched the Sustainable and Responsible Investment (SRI) Sukuk framework to facilitate the financing of socially responsible investment initiatives (Securities Commission Malaysia. 2014). The introduction of the SRI Sukuk framework is consistent with the changing investor demographics who are more concerned with environmental and social impact of businesses and demand for stronger governance and ethics from businesses in line with the Islamic principles.

In May 2015, Khazanah Nasional Berhad (Khazanah), the strategic investment fund of the Government of Malaysia, issued the first tranche of RM100 million under its RM1 billion
SRI Sukuk Program aimed to support Yayasan AMIR’s Trust Schools Program. The Trust Schools Program intends to improve accessibility to quality education in public schools via a public-private partnership with the Ministry of Education. In August 2017, Khazanah issued the second tranche of RM100 million under the same program, featuring a retail offering to provide an opportunity for socially-oriented retail investors to support the further expansion of the Trust Schools Program (Khazanah Nasional Berhad 2017).

Given the growing interest in Islamic finance and impact investing in Malaysia, the introduction of development impact bonds that aim to improve the lives of zakat recipients will continue to attract both institutional and retail investors who are seeking Sharia-compliant investment opportunities that are both financially sound and socially impactful to the society. The risk and return of DIB investments are expected to mirror those of the social programs implemented.

V. POTENTIAL APPLICATIONS OF THE ZAKAT DISTRIBUTION MODEL VIA DEVELOPMENT IMPACT BOND

Entrepreneurship Program

Past Programs

Many zakat institutions in Malaysia have established entrepreneurship programs to produce more entrepreneurs among zakat recipients who are independent and capable of supporting themselves and their families. For example, the Selangor Zakat Board (SZB) in the State of Selangor established the Asnaf Development Department in 2003. The department concentrates on distributing zakat in the form of capital aid to qualified zakat recipients via its entrepreneurship program. Participants in the entrepreneurship program must undergo basic entrepreneurship and
business trainings before receiving capital aids between RM2,000 to RM50,000 from SZB (Md Ramli et al. 2011). The department is also responsible for providing both infrastructure and networking supports to participants apart from monitoring the progress of participants’ business activities.

**Opportunities**

The introduction of the zakat distribution model via development impact bonds has the potentials of supporting and improving the implementation of the existing entrepreneurship programs by zakat institutions. Through DIBs, investors can introduce market rigors to the implementation of the entrepreneurship programs. In addition, zakat institutions can outsource the implementation of the programs to service providers that have been proven to be successful in their business development programs. The implementation of entrepreneurship programs via development impact bonds helps to ensure systematic monitoring and evaluation systems are established to assess and validate program outcomes.

**Potential outcome metrics**

Potential key indicators of progress in the entrepreneurship programs are as follows:

- The performance of participants in their respective businesses
- The returns achieved by participants on the investment capital provided by zakat institutions
- The number of participants who are no longer dependent on zakat and are now eligible to become zakat payers

**Investment proposition**

With an investment term of 5 years and a repayment structure on a semi-annual basis upon the verification of the outcome metrics by independent auditors, the DIB will attract investors who
are willing to invest in microenterprises while making positive impacts in the lives of zakat recipients. The risk and return of the investment are expected to be similar to those of the microenterprises in the entrepreneurship programs.

**Social Housing Program**

**Past Programs**

Social housing in Malaysia is commonly provided by the public and private sectors. Under its Social Development Program, the Selangor Zakat Board (SZB) provides housing and shelter to those who are entitled to receive zakat. Among the housing and shelter supports provided are construction of individual housing, construction of cluster housing, construction of transit housing, and construction of old folks’ housing. For individual housing, SZB provides home improvement assistance. For cluster housing, SZB constructs single-story cluster units on procured state land. Transit housing consists of rented flats to accommodate urban poor while old folks’ housing consists of rented homes to accommodate the elderly. SZB uses a set of criteria to select qualified recipients for its social housing programs (Mohit and Nazyddah 2011, 144-145).

**Opportunities**

The introduction of the zakat distribution model via development impact bonds has the potentials of supporting and improving the implementation of the existing social housing programs by zakat institutions. Zakat institutions can work with investors and service providers to improve the implementation of the social housing programs by establishing systematic performance and outcome management systems to ensure an efficient and effective delivery of social housing services.
Potential outcome metrics

Potential key indicators of progress in the social housing programs are as follows:

- Vacancy/occupancy rates in the social housing programs
- Levels of housing satisfaction among residents

Investment proposition

With an investment term of 3 years and a repayment structure on a quarterly basis upon the verification of the outcome metrics by independent auditors, the DIB will attract investors who are willing to invest in social housing programs while making positive impacts in the lives of social housing residents. The returns to investors are directly related to the performance of service providers in delivering the social housing services.

VI. CONCLUSION AND RECOMMENDATIONS

In Islam, zakat is a religious practice that combines both the elements of religious spirituality and economic justice. As the collection of zakat in Malaysia has been increasing tremendously in the past several decades, there is now an urgent need to improve the effectiveness and efficiency of zakat distribution. The introduction of development impact bond as a financial tool to deliver social outcomes provides an alternative solution to maximizing social return and impact from zakat investment.

This paper proposes a potential integration between zakat and development impact bonds which combines the strengths of both financial tools for sustainable development. By utilizing existing DIB structures, existing zakat institutions can act as outcome funders and commissioners of DIB programs. The zakat distribution model via development impact bonds encourages result-based zakat financing, brings market rigor to social programs, and provides a
platform for cooperation between multiple socially-oriented stakeholders. The zakat distribution model via development impact bond can potentially be applied to the existing entrepreneurship programs and social housing programs by zakat institutions.

This paper would benefit from further research into the area of Sharia-compliant DIBs. The zakat distribution model via development impact bonds must be consistent with the principles and rules of Islamic law and guided by the Islamic economic practices. Similarly, further research could be done to study the institutional and structural requirements for the development of a DIB market within the Islamic financial market. As the zakat distribution model via development impact bonds involves the marketization of social interventions by zakat institutions, further research could be done to understand its potential negative outcomes and unintended consequences.


Economic Planning Unit, Prime Minister's Department. 2010. 10th Malaysia Plan.


