

Effects of Spiritual Capital On Muslim Economy: The Case of Malaysia

Muhammad-Bashir Yusuf

Ph. D Student, Department of Economics, Kulliyah of Economics and Management Sciences, International
Islamic University, Malaysia.
yusufmbo2007@yahoo.com

Abstract

This paper examines how spiritual capital can influence peoples' economy. It focuses on how coming together of Malay based on their Islamic believe has projected the economy of once despised set of people to a nation the world are looking up to champion the Islamic economic renaissance in the world. The study looked at three Islamic institutions in Malaysia that have both direct and indirect effects on the economy of Malay as Muslims and the overall effect on the Malaysia in general. The institutions studied are Islamic financial institutions, the Zakat institutions and the Waqaf institutions in Malaysia. The institutions were examined based on ACT(s) established them, what have been achieved through these institutions by the Malay specifically and Malaysia in general. It was found that these institutions have positive contributions to micro and macro economy of the country such as savings, consumptions, investment, growth and poverty alleviation.

Keyword: Spiritual capital, Malay Muslims, Zakat, Waqaf, Islamic finance.

1. Introduction

Although the Lyda Judson (1920) and Jane Jacobs (1961) were identified as the first proponents of social capital, (as cited by Woolcock, 1998), the analysis of social capital at micro level is usually ascribed to Robert Putnam (Grootaert 1997). Putnam (1993) defines social capital as those features of social organization, such as network of individuals or households, and the associated norms and values that create externalities for a community as a whole. These externalities can either be positive or negative in nature. James Coleman (1990) opens the door to broader interpretation of social capital in his definition when he defines social capital as a "variety of different entities [which] all consist of some social aspect of social structure, and [which] facilitate certain actions of actors – whether personal or corporate actors within the structure". The Coleman definition expands the concept of social capital to include both vertical and horizontal associations and behavior within and among the entities, such as firm. Vertical associations showed that the relationship is characterized by hierarchical relationship with inequality in power distribution among the members. This

association-based social capital also may be negative or positive, (Grootaert & Van Bastelaar 2002, p. 2). The most comprehensive view of social capital was envisioned in the work of Douglas North (1990) and Mancour Olson (1982). They view social capital to encompass both social and political environment that shaped social structure and enables norms to develop. By this macro view, they make social capital more formal and include formalized institutional relationship and structures like political regime, the rule of law, the court system, and civil and political liberties, (Grootaert & Van Bastelaar 2002). Macro institution strengthens the impacts of social capital on economics and social outcomes of both horizontal and hierarchical associations.

Whatever level social capital operates, it exerts influence on development as a result of interaction between two distinct types of social capital: structural and cognitive. Structural social capital enhances information sharing and joint action and decision making through established roles and social network facilitated by rules, procedures and precedents. Cognitive social capital, on the other hand, refers to shared norms, values, trust, attitudes, and beliefs; these make it a more subjective and qualitative concept, (Krishna & Uphoff 2002). These two forms of social capital may be, but not necessarily complimentary. Capital- tangible and intangible- is an asset or a class of assets that yields a stream of benefits. The benefits of social capital include related elements like information sharing and mutually beneficial collective action and decision making, (Grootaert & Van Bastelaar 2002). This work therefore studies the effect of spiritual capital of Islam on the economic development of the Muslim Malays and Malaysia.

2. Literature Review

2.1. What is spiritual capital?

Zohar and Marshal (2004) view spiritual capital as a new paradigm which requires radical change of mind-set about philosophical foundation and the practice of business. "It is not anti-capitalist or even non capitalist, but it does require addition of moral and social dimension to capitalism". Spiritual capital is not by itself a monetary wealth, but it argues the possibility of making a profit by doing business in a wider context of meaning and value. Spiritual capital draws its force from the deeper realm of human motivation and how to shift it, (Zohar & Marshal 2004). Faith provides a moral foundation for civic regeneration. Faith gives meaning to community service and good will, forging a spiritual connection between individual impulses and great public issues. That is, religion helps people to internalize an orientation to the public good. Because faith has such power to transform lives, faith-based programs can enjoy success where secular programs have failed (Bettersogether, n.d.).

2.2. Islamic social capital

The Islamic social capital is characterized by a desire for moral values in production and networking which promotes opportunities for innovative interactions between sets of agents thus forwarding the Islamic ethics.

The goals of Islam are to lead life with a combination of materialistic and spiritualism in accordance with the teachings of Al-Qur'an and Sunnah of the Prophet Muhammad (peace be upon him). They are based on Islamic concepts of human well-being and good life which stress brotherhood and socio-economic justice as well as requiring a balance of both the material and spiritual needs of all humans (Chapra 1992). The Muslim world is still a long way from integrated global Islamic governance with global Islamic institutions. In the absence of that governance and institutions, however, networks can play a vital part because they are an organizational form with an extraordinary capacity for innovation, managing risk, building trust, facilitating joint action and gathering information in a manner that flows around and between geographical, legal, and institutional barriers. Consequently, networking is doing much to make up for the absence of integration and may be considered as a part of the shuratic (discursive) process and ummatic (Islamic world-system) desire working for the all round development of an Islamic society.(Farooqi 2006).

2.3. Islam in Malaysia

Although there is no consensus among the historians on when, where and who brought Islam to Malaysia, evidence of Islamic script using hijira calendar dated back to early ninth century has been found on tombs inscriptions in the country. Entrance of Islam to Malaysia is being linked to the spread of Islam to coast of peninsular Malaysia including the port of Penang which was a renowned trading center, either through the Indian Muslims or Arabian traders who spread the gospel of Islam along with their trading wherever they find themselves. It was believed that local people saw the simplicity of Islam and the brotherhood inherent in it that has placed mankind on equal footing no matter their status, abandoned their earthen religion to covert to Islam en mass. The effort of implementing Islam by the ulama reached the political leaders who embraced Islam in succession and within a short period Islam reaches places such as Banten, East Java, Maccassar, Mallaca and Terrenganu to mention but few. The ulamas served as imams, preachers and advisors to the villagers and played a part in administration, which led a number of powerful sultans to hold firmly to the teachings of Islam.

However, colonization of the region by successive western power truncates the spread of the nascent religion of al-Islam. Christianization efforts by the missionary colonial masters and the preference given to Chinese and Indian foreigners above the native Malay reduced Islam to religion practiced between the four walls of the mosque and in the kampungs throughout the colonial rule and governance was left to a generation of Muslim bureaucrats who were westernized and secularized, (Fatimi 1963; Kamar n.d.).

2.4. Islamic Resurgence in Malaysia

Islamic resurgence is an effort to re-establish Islamic value, Islamic practices, Islamic Institutions, Islamic laws, and Islam as a whole, in the Muslims live everywhere. It denote an attempt to re-introduce an Islamic ethos, an Islamic social order, at the vertex of which the Muslims are guided by the Qur'an and Sunnah, (Muzaffar 1987). This involves the adoption of Muslim dress, Muslim form of greetings, and avoidance of

things that are haram from the Qur'an and Sunnah such as dealing in interest and eating of non halal food. Islam has been the main religion in the Malaysian peninsular since the fourteen century. It has maintained relationship with Malay state and society for several centuries. All Malays are presumed Muslims. This is evident in Islam being the official religion of the Malaya since the country achieved independence in 1957. This does not mean Malaysian is an Islamic state, but Islam as the official religion is essentially a recognition of its primer status in the evolution of Malaysian polity as seen in the performance of Muslim prayers at official function, the construction of mosques by the states, holding of Qur'an- recitation competition and the coordination of Muslim hajj by government agency.

The growing Islamic consciousness became more apparent in Malaysia in the early 1970s when government first introduced the calling to prayer over the government radio and television services. Since then, a series of media programme have been put in place to educate people about pure Islamic teachings. From the mid-70s onward, political leaders in the Malaysian leading political party, United Malay National Organization, (UMNO), started given more emphasis on Islam when communicating with the Malay (Muslim) populace. However, with the pronouncement of the introduction of its Islamization programme in 1982, the Islamic tone of the government has become more pronounced. Essentially a response to the ever expanding strength of Islamic resurgence in within the Malay middle class, the programme has inculcated Islamic values in Muslims and established various Islamic institutions, (Muzaffar 1987).

3. Institutionalizing Islamic Spiritual Capital in Malaysia

The three major economics institutions in Malaysia borne out of Islamic spiritual capital cover by this paper are: Islamic finance, Zakah and Waqaf.

3.1. Islamic Finance

The emergence of Islamic financial institution in Malaysia is relatively new. Its growth can be divided into two broad categories of banking institution and non banking financial intermediaries. The legal basis for the formation of Islamic bank known as Islamic Banking Act (IBA) came into effect on 7th of April 1983. This act empowers Bank Negara Malaysia (BNM) to supervise and regulate Islamic banks. This was followed simultaneously with the Government Investment Act, 1983 which empowers government of Malaysia to issue Government Investment Issue (GII), which are government securities issued based on shariah principles. This enables the Islamic banks to invest in GII in order to meet the prescribed liquidity requirements as well as to invest their surplus funds. The first Islamic bank in Malaysia, Bank Islam Malaysia Berhad (BIMB), came into existence on 1st July, 1983, (Nawai and Wan Nawag 2007). Since then, a number of Islamic financial institutions have been established, and are now in the process of forming an Islamic inter-bank market.

Within the first ten years of introducing the Islamic Banking Act, the Malaysian government took further step to popularize Islamic banking and finance, by allowing conventional banks to offer Shariah-compliant instruments. Started with an initial paid up capital of RM 80 million at inception, Islamic bank was tipped to control about 20 percent of the market share by the year 2010. The most distinctive feature of Islamic banking in Malaysia is that it is being embraced by its Chinese and non-Muslim population who are opting to deposit their savings or borrow money on an Islamic basis, (Islamic Banker 2009).

The non-bank Islamic intermediaries include: Takaful Companies, Development Financial Institutions, Saving Institutions and other financial intermediaries which offer Islamic banking services such as housing credit institutions. Following the recommendation of the task force on the study of the establishment of an insurance company in Malaysia by the government in 1981, Takaful Malaysia was incorporated in 1984, when Syarikat Takaful Malaysia Berhad was established to fulfill the need of the general public to be protected based on the Islamic principle. With an authorized capital of RM500 million and a paid up of RM10 million when it commenced operation in July, 1985, Takaful Malaysia paid-up share capital rose beyond RM6 billion in 2009. Following the transformation of Takaful Malaysia into a public listed company in 1996, its share is now listed on the main board of Bursa Malaysia Security Berhad. There are now five companies operating Takaful in Malaysia and their operations are being supervised by BNM with BNM Governor doubled as the Director General of Takaful.

Tabung Haji is the most prominent Islamic saving institution. Being the first Islamic financial institution in Malaysia, Tabung Haji was established under the act 8 of Pilgrims Management and Fund Board. It commenced its operation in 1963 with the objectives of enabling the Muslims to save gradually to perform hajj, the fifth pillar of Islam, have active and effective participation in halal investment, and provide adequate facilities and services to safeguard the interest of Muslim pilgrims during hajj operation. The pilgrims fund board performs three functions: Hajj services, Deposit and investments. A Malaysian Muslim can open an account with Tabung Haji for as low as RM 10. The deposits collected by the board are invested in various shariah compliant investment, both short and long term investment, and the profits accrue from the investments are paid to the depositors account as bonus.

The Development Finance Institutions, championed by Bank Rakyat, is a cooperative credit institution operating based on Islamic principles. These cooperative banks accept deposits and provide personal, leasing and other financing facilities to its members. The bank, with more than 100 branches nationwide, introduced Islamic banking in its operation in 1993 and has been actively promoting and providing Islamic banking products and services throughout Malaysia. Bank Rakyat partners Yayasan Pembangunan Ekonomi Islam Malaysia (YPEIM) to pioneer the provision of Islamic pawn broken service known as Ar-Rahanu. Other development finance institution such as Bank Perusnhaan Kecil dan Sederhana Malaysia Berhad, Bank Pembangunan Berhad and Bank Pertanian Malaysia provide Islamic banking facilities on window basis for the provision of medium and long term funds to promote industrial, investment and growth while the Agricultural bank provides Islamic banking facilities to promote agricultural sector.

The treasury housing loan division (THLD) is another intermediary in the non-bank Islamic financial sector that plays a great role in providing house financing facilities to civil servants since May 1996. THLD was established with the government policy of providing all new houses financing to civil servants in line with Islamic principles (Nawai & Wan Nawang 2007).

3.2. *Zakah*

The position of Zakat in Malaysia is based on the Malaysian Federal Constitution which placed religious matter under the government of the states. Zakat management falls under the Malay state ruler acting as the head of Islamic Religion for each state with the Sultan and 'Yang DiPertuan Agong' for states without Sultan and the Federal Capital Territories. Though zakat institution has been established in Malaysia as early as the beginning of twentieth century, there is no national Act that have been drafted for Zakat collection except for the states of Kedah and Sabah. As a result, Zakat collection was very low from its expected actual capability. The government Act 6(A) of 1967 that gave tax rebate to zakat payer to the tune of the amount paid in zakat did little to change the situation.

However in 1991, a proposal for corporatising zakat collection was accepted by the Islamic Religious Council of the Federal Territories. This led to a resurgent and paradigm shift in zakat collection in Malaysia. The increase in the awareness to pay zakah among Malay today is due to the increasing da'wah efforts and marketing which became more effective in the last 20 years. Efforts by the Islamic religious Council of the Federal Territories to corporatise zakat and establish zakat collection center led to significant increase in the the amount of zakat collected. This was emulated by other states and ever since, the amount of zakat collection in each state has been on the increase on yearly basis, rising from RM 61 million in 1991 to RM 1 billion in the year 2011 . Collection is done by the private limited companies while distribution is by the Islamic Religious Council through Baitulmal, (Association of Tax Authorities of Islamic Countries, (ATAIC 2006).

3.3. *Awqaf*

The first law that gave the responsibility and supervision of waqaf to the Religious Council was enacted in the state of Selangor in 1952, (Sirageldin, 2000). This was followed by Kelantan (1952), Terengganu (1955), Pahang (1956), Melaka(1959), Perak (1965) and Johor (1978). In March 2006, a meeting of the National Baitulmal Coordination Committee unanimously agreed that the national awqaf entity be formed to manage awqaf affairs. The government of Tun Abdullah Hj Ahmad Badawi agreed to the urgent need for the formation of a national awqaf entity to resolve the problems on awqaf land development in Malaysia. Yayasan Waqaf Malaysia was launched in February 2008, and was registered under the trustee' Act (incorporation)1952 [Act 258]. In January 2009, Yayasan Waqaf Malaysia obtained salary deduction code for federal civil servants (code No. 4474) from accountant general department.

The Malaysian government also allocates RM 250 million to develop waqaf in the 5 years Malaysian plan (Ahmad, 2009). Based on JAWHAR records, there are a total of 9,947ha of land under general and specific awqaf in Malaysia, excluding awqaf projects under 9th Malaysian plan (Muhammad 2009). This is estimated at approximate of RM 1.9 billion market value. A total of 71.6 of this land has already been developed. There was also a National Fatwa in 2007, permitting cash awqaf in Malaysia (Ahmad 2009). The state of Sembilan gave the Islamic Religious Council a large quantity of land (approximate 8,000ha). This land, inform of plantation and real estate, is vested to Baitulmal. A number of these plots of land has also been developed for commercial purposes (Surageldin 2000).

4. Contributions of Islamic Spiritual Capital to Malaysian Economy

4.1. Islamic Finance

Islamic finance is now a viable vehicle contributing to integration of the global economies in facilitating trade, investment and economic activity. As at 2009, Malaysia possesses one of the world's most advanced Islamic financial markets, with an Islamic finance system estimated to be worth around USD1 trillion in assets, 5 times greater than in 2003. The nation has the unique distinction of being the world's first to have a full-fledged Islamic financial system operating in parallel to the conventional banking system, whilst equally placing strong emphasis on human capital development in Islamic finance to ensure the availability of Islamic finance talents (Malaysia International Islamic Financial Centre, MIFC, 2009). The Malaysian Islamic banking system saw in particular strong performance in 2006, with higher profitability, and has remained well capitalized. Islamic banking assets is estimated to be over RM120 billion, with takaful assets about RM6 billion. The Malaysian Islamic financial market has been equally encouraging. Islamic corporate bonds in 2007 amounting to RM125 billion, which constituted 46 percent of the total corporate bond market in Malaysia. The success of Islamic finance in Malaysia reflects the innovations in product development that meet the needs of savers and users of funds. In particular, the rapid growth of the Malaysian Islamic capital market was ascribed to the pioneering spirit of the industry, the intensive efforts to explore new financing and investment opportunities and to keep pushing the boundaries in terms of product innovation. Indeed, the domestic bond market plays a crucial role in ensuring that the financing needs of the economy are being fulfilled. The launch of sukuk by Malaysian companies has demonstrated the ability of Islamic finance intermediaries in structuring products and offering services acceptable to the global financial investors. The Malaysia sukuk account for almost 70% of all the sukuk issued globally. The International Finance Corporation and the International Bank for Reconstruction and Development also conducted their first ever Islamic bond issuances in Malaysia. This was over-subscribed. Malaysian new asset classes such as Real Estate Investment Trusts (REITs) have rapidly spawned Shariah-compliant counterparts that have gained global acceptance. The regulatory and Shariah framework in Malaysia has moved rapidly along with the innovations made by the industry in order to keep Malaysia in the forefront of Islamic capital market development. The greater breadth and rapid deepening of the Malaysian financial and capital markets have

meant that financing via these markets have not only become a viable but also an attractive option. Islamic finance is well-placed to provide savers with an ethically sound and commercially viable choice while funding economic development (Haj Abdur Razak 2005).

At the 2009 Second Annual London Sukuk Summit Awards of Excellence, the Malaysia International Islamic Financial Centre (MIFC) was selected as the "Best International Islamic Finance Centre". It was estimated that the international student population in Malaysian institution would surpass 100,000 by 2010. With growing demands for more talents in the Islamic finance industry, Malaysia was estimated to provide job opportunities for about 12,000 professional practitioners of Islamic finance in the same year. The country was also expected to share its infrastructure and experience in Islamic finance with the world to meeting the ever increasing demand for skilled Islamic finance professionals (MIFC 2009).

Tabung Haji was able to mobilize rural Malay saver who were known to prefer keeping their saving under the mattress rather than taking it to commercial banks that deal in interest. Tabung Haji began organizing and administering the hujjaj's journeys for them. In its early years, Tabung Haji pilgrims travelled to the holy land by ship. In 1972, Tabung Haji started using Pakistan International Airlines (PIA) to transport the pilgrims. Later, it switched to Malaysian Airlines (MAS). MAS now have a contract with Tabung Haji and makes sure that its thousands of pilgrims get the best service.

Tabung Haji now has a multi million dollar building of its own, called "Tabung Haji" (pilgrimage fund), which was completed in mid eighties. In 1984, it was not only the tallest building in Malaysia but was also hailed as the highest Muslim edifice of the world. Tabung Haji success can be measured from the growth in capital and the number of depositors. In 1995, the initial sum of RM100 deposited by intending pilgrim No. 1, Ungku Aziz himself, 32 years earlier, had multiplied into a capital of billions of Malaysian ringgit. That year's figures showed that Tabung Haji had 2.75 million savers, holding a total of RM3.113 billion as savings and receiving RM236.5 million as bonuses.

In October 1997, Tabung Haji reported that it had 3 million depositors with total deposits amounting to RM4 billion. It was also stated that there was a profit of RM260 million in previous year's accounting period. Tabung Haji early investments were in shipping companies and plantations. Tabung Haji now has investments in many other types of halal businesses, such as property development and services. When Malaysia's religious authorities ruled that it was haram to invest in tobacco companies, known for promoting immoral activities such as rock concerts and addictiveness, Tabung Haji withdrew its investments from such companies. By 2007, Tabung Haji owns oil palm estates in Malaysia and Indonesia, as well as teak plantations in Sabah and Sarawak, totaling about 129,663 hectares, and has built a refinery in Batam with an investment of up to US\$15.5 million

Tabung Haji has a number of subsidiaries, two of which are TH properties and TSR Group. TH Properties is the Development Manager of Bandar Enstek, a joint venture effort with the Negeri Sembilan State

Development Corporation (PKNNS) via TH-NSTC Sdn Bhd, which is the master developer. This 5,116-acre integrated township features an extensive network of residential, commercial, industrial and institutional components with technologically-advanced infrastructure and facilities making it the first planned knowledge-based community in Malaysia. Upon completion in 2025, Bandar Enstek will have a Gross Development Value estimated at almost RM9.2 billion. TSR Group was listed under the Main Board of Bursa Malaysia Securities Berhad ("BMSB") on 26 March 2002 through its investment holding company, TSR Capital Berhad. Currently, TSR Group consists of a holding company and 14 subsidiary companies where its principal activities are construction & civil engineering works, manufacturing and marketing of precast concrete products, geotechnical works and housing and property development. TSR Capital Berhad ("TSR Group") today has paid up capital of RM113.3 Million.

In 2007, Bandar Enstek, a subsidiary of Tabung Haji won the 2007 award for 'Urban Planning Achievement in Township Development' from the Malaysian Institute of Planners for demonstrating high planning quality and complied with the planning standards and requirements which fulfilled the principles of sustainable development and presentation format. Also in 2008, Tabung Haji received the MS ISO 9001:2000 certification for management to become the first Haj management organization in the world to be accorded such status. Tabung Haji organized 2008 pilgrims for its members at 25 percent subsidy. (Bernama Banking and Finance Special Page 1995; Koya 2000; Mohamad 2008; The Jakarta Post 2007; TH Properties 2009).

4.2. Zakat

Corporate era in Zakat collection in Malaysia, beginning from 1991 has witnessed tremendous improvement in the number of programmes, projects and even aids given to improve the welfare of eligible asnafs. Many of the Baitulmals throughout Malaysia have been able to increase in spending zakat fund to help and finance basic needs and the necessary requirements of asnafs in order to free them from the shackles of poverty. This increase in spending and distribution in terms of zakat fund correlates with the increase in collection of zakat over the years. These projects / programmes / schemes / aids to help and further develop asnafs' economy can be grouped into two broad categories: General and Specific. Specific programmes, that have to do with empowerment, targeted selected asnaf to be trained by zakat institutions which give them opportunity to be involved in several business activities after completing their training course. Projects / programmes / schemes / aids are divided in the form of financial aid in term of organizing and preparing skilful training, preparation courses, on the job training, as well as managing and handling real business premises. A number of specific aid projects targeted asnaf to develop their human capacity have been found in different states in Malaysia, ranging from entrepreneur group through asnaf craft up to agricultural asnaf movement. A number of asnaf training center and two education institutions (Baitulmal Professional Training Institute (BPTI) and Baitulmal Skills Training) have also been established from the proceeds of zakat in Malaysia.

General aids on the other hands, deals with the development of asnaf economy. Entrepreneurs are involved in supply goods and equipment to run these entrepreneur courses for the beneficiaries. Some of the projects

identified so far under the general aid category are: aid in repairing of houses, aid in construction of new houses, aid in business capital, aid in sewing courses, skilful course involving handicrafts, managing of business premises, managing of hemodialysis clinics, school materials aid such as schools uniforms, shoes and bags, and management of Asnaf aids center that being develop by Baitulmal and Zakat Centres such as Training Centre, Education Centre, Vocational Centre and many more. Prominent among these are: Darul Kifayah complex for orphans, Darul As Sa'adah for the homeless, Puserawi hospital and hotel to provide medical and hotel services using Islamic approach, Darul Hanan child day care, and Islamic community shelter complex to cater for youths facing disciplinary problems etc. Food, finance, medical, Ramadhan aid, rent- monthly and yearly, marriage assistance, scholarships (primary to university), educational aids, emergency, and disaster aid are also provided to the beneficiaries.

In 2005 alone, it was estimated that the Baitulmal in Federal Territories assisted 37,261 person based on a pro rata of five children in a family from three groups of beneficiaries (the destitute, poor and new converts). Destitute and poor students given primary, secondary schools and university level scholarships reached 50,652 persons with the overall aid for the 2001-2005 amounting to RM35.69 million. As at 2005, BPTI has succeeded in giving professional education to more than 7,659 students in various fields given aids in the form of fee payments, accommodation and transportation to selected students with more than 80% of its graduates gainfully employed. BSTI has also trained more than 3,250 students in various skills. More than 75 percent of this number had been able to secure employment in government and private sectors, while the remaining continues with their education (ATAIC 2006).

4.3. *Waqaf*

As noted earlier, the institution of Waqaf in Malaysia is still young and evolving. Despite having some states enactment vesting awqaf properties under the controls of states Islamic leader, Yayasan Waqaf Malaysia, a national awqaf entity to resolve the problems on awqaf land development in Malaysia was constituted in 2008. The market value of the land under specific and general awqaf is estimated to be approximately RM 1.9billion. A total of 71.6ha of these lands has already been developed into shopping centers and housing units to generate fund for the welfare of the less privileged people. Efforts are still on by Yayasan waqaf Malaysia to collaborate with various Islamic institutions to develop these plots of land and even lease some to generate funds. There was also a National Fatwa in 2007, permitting cash awqaf in Malaysia and fund from this source would be challenged to develop waqaf for the benefit of the poor, (Ahmad 2009). The state of Sembilan gave the Islamic Religious Council a large quantity of land (approximate 8,000ha). This land, inform of plantation and real estate, is vested to Baitulmal. A number of these plots of land has also been developed for commercial purposes (Surageldin 2000).

The state of Penang has been the most innovative as far as awqaf institution is concerned in Malaysia. The Baitulmal committee in the state has developed shop units and housing estates for rent to Muslims at affordable cost, and at the sametime generating fund for the poor. Muslim entrepreneurs are empowered to

be better able to compete by getting shops at lower rate that may eventually translate to lower prices of their goods to their customers and generate fund for further investment and aids. Some of the land are also on lease for a number of years, while fertile ones are put into agriculture, (Ahmad 2009). The proceeds from waqaf, (both land and cash), have been used for a number of programs/projects. Prominent among these projects are education scholarship, poverty reduction and research collaboration with higher education institutions for management and development of awqaf institutions in Malaysia ((Ahmad 2009; Muhammad 2009).

5. Economic dimensions of Islamic Spiritual Capital in Malaysia

The Islamic economic institutions borne out of spiritual capital have implications on macro and micro economic variables. On micro level, Islamic economic institutions in Malaysia have resulted in favourable effects on consumptions, savings and investment behaviour of individuals without affecting work efforts. On macro-economic level, the fiscal policy, monetary policy, employment, economic growth, distribution of income and wealth, and poverty eradication have all felt the impact of Islamic social capital. Sadeeq (2002) notes that for the institution of zakat to produce a desirable result, the essential complementary factors must be in place. These factors are Islamic economic norms based on elimination of interest, removal of distortion in ownership pattern, right political will and resolving fiqh issues. Malaysia aims at providing all these factors. The effects of these Islamic institutions in Malaysia on macro and micro economic variables are briefly presented as follow:

5.1. Consumption

Islam is a complete way of life. It regulates what, how and when a Muslim should consume. Islam encourages Muslims to consume what is halal, from halal source, through halal means. Malay Muslims are well aware of these religious regulations and are trying to put them into practice in what they consume. This has led to the establishment of a number of halal outfit producing halal goods and services. Malaysian was tip to be a major source of halal products for the Muslim world by the year 2010 with government earmarking USD 25 million for producing halal product to benefit from the estimated USD 2 trillion spend yearly by Muslim world to get halal product from non-Muslim (Halal Development Corporation 2009). Islamic banks provide consumption opportunities to consume both tangible and intangible assets through a number of its financial products. Malaysian Muslims and non Muslims can now purchase assets using various Islamic financial products based on which one suit them most without entertaining fear of consuming riba. Zakah redistributes wealth leading into higher aggregate demand (Mannan 1989; Sideeq 2002). Zakat funds raised the purchasing power of the poor, thus increasing consumption of necessities. This has been proposes to

encourage the production of necessity goods by reducing the cost and discourage the production of luxuries by raising the price thereby promoting the production of necessary goods in the economy (Yusuf & Amin 2003).

5.2. *Savings*

Islamic spiritual capital has been observed to have positive impact on saving culture of the Malay. Starting from Tabung Haji which was the first saving mobilization among the Malay using haji platform, it was found that the initial sum of RM100 deposited in 1964 had multiplied into a capital of billions of Malaysian ringgit. Tabung Haji had mobilized 2.75 million savers, holding a total of RM3.113 billion as savings and receiving RM236.5 million as bonuses (Koya 2000). Islamic banking assets was valued at about RM120 billion, with takaful assets about RM6 billion (Haj Abdur Razak 2005). Islamic banks were estimated to control 20 percent of the Malaysian banking industries asset by 2010. Malaysian Zakat record shows that zakat contributions increase on yearly bases. Bank RHB was reported to have disbursed over RM 20 million in 2008, through the states Baitulmal (Bank Rakiyat 2008).

5.3. *Investment*

Though Malay Muslims still have a long way to go when compared with other ethnics groups in Malaysia, however Islamic spiritual capital has really enhanced their investment abilities. Deposits in Islamic Banks have to be invested in a profitable halal way to be able to sustain the banks and profit the depositors. Profit and loss sharing method of Islamic finance also encourage entrepreneur to access the banks for loan for profitable investments. Islamic Banks partners their clients in investments thereby provide their customers professional advice so that the business will not fail. Zakat also encourages investment and prohibits hoarding of wealth by eating up idle wealth in forty years (Saddeeq 2002). Islamic corporate bond (sukuk) amounted to RM125 billion in 2007, which constituted 46 percent of the total corporate bond market in Malaysia, and 70 percent of the all sukuks issued globally. Tabung Haji had investments in shipping companies and plantations. Tabung Haji now has investments in many other types of halal businesses, such as property development and services. It owns oil palm estates in Malaysia and Indonesia, as well as teak plantations in Sabah and Sarawak, totaling about 129,663 hectares, and has built a refinery in Batam with an investment of up to US\$15.5 million. TH Properties is developing 5,116-acre integrated township features an extensive network of residential, commercial, industrial and institutional components with technologically-advanced infrastructure and facilities making it the first planned knowledge-based community in Malaysia. Upon completion in 2025, Bandar Enstek will have a Gross Development Value estimated at almost RM9.2 billion. Under zakat distribution scheme, some of the investments are: Darul Kifayah complex for orphans, Darul as Sa'adah for the homeless, Pesarawi hospital and hotel to provide medical and hotel services using Islamic approach, Darul Hanan child day care, and Islamic community shelter complex to cater for youths facing disciplinary problems (ATAIC 2006). The proceeds from waqaf, (both land and cash), have been used for a number of projects. Prominent among these projects are education

scholarship, poverty reduction and research collaboration with higher institutions for management and development of awqaf institutions in Malaysia (Ahmad 2009; Muhammad 2009).

5.4. Monetary Policy

Islamic capital has a number of influences on the Malaysian fiscal policy. The fact that Islam prohibits dealing in interest and uncertainty mean that a country that wants to operate Islamic financial system along with the conventional system must provide separate facilities for its operation. This is exactly what Bank Negara Malaysia (BNM) is doing. In an attempt to provide a level playing ground for the two financial systems, BNM has given the Islamic system almost equal opportunities as their conventional counterparts (see BNM official website). This means monetary policy has to be made considering the two systems. In order to retain some of their customers and/or share part of the market, a number of conventional banks in Malaysia are now operating Islamic windows, while some foreign Islamic banks have also been licensed to operate in Malaysia. All these have had impacts on the country's monetary policy. It may not be out of place to say that Islamic spiritual capital has influenced the product innovations of both the Islamic and conventional financial systems which is the main reasons why the country has not experienced serious crisis in the sector.

5.5. Fiscal Policy

Zakat has been seen to re-inject hoarding in circular flow of wealth by the rich in form of saving to high consumers (the poor) in form of zakat due. Awad (1989) and Yusoff (2009) see zakat as a stabilizer in an economy. According to Awad, during boom people hoard less so that Zakah revenue will be less in size. On the other hand the zakat need will also be less because many people will be employed. However during recession hoarding increases due to fall in investment which increases zakat. Need for zakat also increases during recession because of fall in employment. As a result of this, Awad sees zakat revenue as producing expansionary effect during downswings (Awad 1989). To Yusoff, excess zakat revenue during the boom can be used to jumpstart consumption of the poor by injecting it into the economy during recession (Yusoff 2009). The experience in Malaysia shows that there is reduction in zakat collection during 1997 Asian financial crisis (ATAIC 2006); however it does improve the consumption of the poor during recession. Tax rebate is also given to Zakat payer to the tune of the amount paid in zakat.

5.6. Income Distribution

There are two channels of distribution of income and wealth: functional distribution of income which refers to the distribution of produced goods and services among factors of production, and distribution of payment

through payment transfers (Sadly 1990, pp 60-61). In an Islamic system where functional mechanism of income distribution through a just factor pricing is implemented, income distribution is not expected to be highly un-even; and zakat institution which is an effective method of obligatory transfer will only serve to reinforce this (Sadeeq 2002). The Islamic banks in Malaysia gives equal opportunities to Muslims and non Muslim entrepreneurs for equal access to finance regardless of whether they are rich or not. The Baitulmal complement this by distributing proceeds from the zakat collection and fund from awqaf to the poor in form of cash and other means that best suit individual circumstance at that particular time. These distributions come in form of monthly salary, aids, health care, empowerment, scholarship etc, to the beneficiaries (ATAIC 2006).

5.7. Employment

Employment opportunities created by Islamic capital in Malaysia are in various forms. Human capital development to enhance the skills of the Muslims to be better able to compete well in Malaysia economy has been the hallmark of all of these institutions. Baitulmal Professional Training Institute (BPTI) and Baitulmal Skills Training are two institutes established to train professionals and skilled labour respectively. A number of universities in Malaysia are devoted to train Islamic financial experts. Some institutions are solely established for this purpose like INCEIF International Centre for Islamic Finance). Islamic banks have used billions of their deposits to finance different sorts of businesses using shariah compliant products. Islamic finance was also estimated to provide employment for 12,000 professionals by the year 2010. Zakat institution, awqaf institutions and other financial institutions have invested in various fields of life endeavour. These create employment opportunities and ultimately have positive impact on employment rate of the country.

5.8. Economic growth

Islamic institutions lead to healthy circulation of wealth and ensure continuous growth and prosperity of an Islamic economy (Awan 1980 p.79). It increases investment by penalizing the behaviour of keeping money idle (Sadeeq 2002). It also redistributes wealth into consumption leading to higher aggregate demand (Sadeeq 2002). Islamic spiritual capital has contributed to the Malaysian economic growth in a number of ways as noted earlier. It has facilitated healthy circulation of wealth and ensures continuous growth and prosperity of the nation. The value of asset under Islamic finance is over RM 120 billion. Huge amount of money from Islamic banks is used to finance different projects using various shariah compliant contract (see appendix 1). Tabung Haji has invested in various projects such as shipping companies, oil palms, refineries, Bantek estek etc. Zakat institutions in different states are not left out. Part of their investment includes human development, hospital, hotels higher education institutions etc. Islamic finance was estimated to provide

employment for 12,000 professionals by year 2010 (MIFC 2009). All these are expected to have positive impact on the Economic growth of Malaysia.

5.9. Poverty Alleviation

The concept of poverty is complex and varied depending on nationalities, origin, culture and status. Poverty is viewed to have various manifestations including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services and lack of participation in decision making and in civil, social and cultural lives. Therefore, poverty is thus better measured in terms of basic education; health care; nutrition; water and sanitation; as well as income, employment and wages. If these essential needs are not met, people are deprived of many other opportunities that are supposed to be available in a well-functional democratic society. Therefore poverty is a deprivation of not only essential assets but also denial of opportunities to which every human being is entitled so as to attain a minimal standard of well-being. (Othman n.d.). Islamic finance has provided various forms of finances to people to be self dependent. Zakat fund has been used to finance projects for asnaf to enhance their capability. Direct aids are even targeted to some poor to improve their consumptions. Investments inform of housing estates, hotels, higher education institutions and even hospitals have been established by these institutions. Scholarships from primary to university education to indigent students and payment of hospital bills are other tasks accomplished through these spiritual capitals. It will therefore not be an overstatement to conclude that Islamic social capital has had positive impact in poverty alleviation in Malaysia.

6. Conclusion

This work dwells extensively on Islamic social capital in Malaysia. It looked at how the Muslim Malay exploit spiritual capital to improve their economic status. Islam has been known to be a major factor among the Malay, since being Malay is synonymous to being a Muslim. Starting from the establishment of Tabung Haji to coordinate pilgrims in the early 1960s, a lot of other religious institutions have sprung up among the Malay revolving round there Islamic believe. This study reviews the establishment of some of these institutions that have influenced both policy and economy of Malaysia. The institutions dealt with include: Islamic financial institutions, Zakat institutions and Awqaf institutions. It is found that most of these institutions have ACTs that establish them either at the national or state level.

Islamic financial institutions are divided to both banking and non banking intermediaries. Islamic banking sectors include banks operating on Islamic basis and conventional banks with Islamic bank windows. So far there are a number of Islamic banks with asset of more than RM 120 billion and about 12,000 employees. Non banking intermediaries include Takaful Companies, Development Financial Institutions, Saving Institutions and other financial intermediaries which offer Islamic banking services such as housing credit institutions. Takaful Malaysia paid-up share capital is currently at over RM6 billion. Tabung Haji is the most

prominent Islamic saving institution in Malaysia and is valued to worth billions of Malaysian ringgit. The Development Finance Institutions, championed by Bank Rakyat, is a cooperative credit institution operating based on Islamic principles. Others are Bank Perusahaan Kecil dan Sederhana Malaysia Berhad, Bank Pembangunan Berhad, Bank Pertanian Malaysia and treasury housing loan division (THLD). Zakat institutions operate under baitulmal of the Islamic affair board of each state who have corporatised them for effective collection. The national awqaf committee has been formed and Yayasan Waqaf Malaysia is coordinating the national Waqaf.

It is found that these institutions have been able to mobilize resources from both Muslims and non Muslims alike. These resources have in turn been used to generate investment for the development of Muslims in particular and Malaysia in general. The funds from Islamic financial institutions are invested to generate returns to the deposits and to finance project to assist the borrower. Zakat and Waqaf funds have been used to improve the life of the asnaf and the poor. Part of these funds is invested in human capital development while some are used to provide direct aids. All these have been found to have impacts on both micro and macro economics of Malaysia. These effects are noticed on saving, consumption, investment, fiscal and monetary policy, employment, poverty eradication etc.

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Appendix 1: Islamic Banking System: Financing by Concept¹ (RM million)

As at the end of	Bai Bithaman Ajil	Ijarah	Ijara Thumma al Bai	Murabahah	Musyarakah	Mudharabah	Istisna	Others	Total Financing
April 08	31,057.6	1,548.8	27,613.5	13,537.4	604.6	168.2	1,374.4	14,758.8	90,663.3
May 08	31,266.6	1,603.3	28,168.6	14,257.3	657.8	145.7	1,426.4	14,882.6	92,408.1
June 08	31,484.4	1,648.7	28,695.6	14,710.5	711.6	161.1	1,397.8	14,943.5	93,747.2
July 08	31,740.8	2,084.8	29,288.9	15,444.6	759.4	134.1	1,492.7	15,236.3	96,181.5
Aug. 08	32,560.6	2,232.3	29,695.1	15,819.8	849.2	310.2	1,593.6	15,176.5	98,293.3
Sep. 08	33,195.6	2,474.2	30,340.1	15,552.2	942.4	315.1	1,531.9	15,670.5	100,022.0
Oct 08	34,157.6	2,510.0	30,874.0	15,543.8	1,016.5	329.3	1,378.5	15,578.9	101,388.5
Nov 08	34,501.6	2,727.2	31,135.5	15,878.5	1,078.8	336.4	1,397.4	15,958.1	103,011.6
Dec 08	34,533.8	2,744.1	31,847.2	15,854.8	1,137.1	314.0	1,384.2	16,802.4	104,647.6
Jan 09	35,501.4	2,840.8	32,275.8	19,563.6	1,209.2	325.2	1,410.4	12,659.7	105,777.2
Feb 09	35,554.6	2,914.1	33,267.5	19,177.5	1,285.1	386.7	1,430.2	13,649.2	107,664.9
Marc 09	35,738.1	2,973.1	33,697.1	18,583.5	1,335.2	389.3	1,477.3	13,836.7	108,030.3
April 09	36,406.2	3,051.5	34,162.4	18,103.4	1,429.4	385.7	1,463.4	14,118.7	109,120.6

1 Exclude Financing sold to Cagamas

2 Data include Islamic banks and the Islamic banking scheme of both Commercial and Investment/ Merchant banks

Source: Bank Negara (June, 09).

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