

## Zakat Management in Malaysia: A Review

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**Abstract:** Zakat is one of the five pillars in Islam where it can be assume as the obligation for those who admitted they are the believer and hold a faith only to Allah S.W.T. Zakat is the way of giving away a specific amount of wealth somehow with a certain settings and requirements to those who recognized as al-mustahiqqin (beneficiaries) and then the maqasid (purpose) of paying the zakat is to guarantee the achievement of socioeconomics impartiality and justice. A Quran verse explained [2:215] "They ask you about giving: say, "The charity you give shall go to the parents, the relatives, the orphans, the poor and the traveling alien." Any good you do, God is fully aware thereof." Zakat is the most suitable ways of Islamic taught to encounter with the issues of poverty in Muslim society by allocation of one wealth to a significant beneficiaries. In order to collect and to distribute the zakat, Malaysia is doing well when they establishing an institution by regional to manage the zakat. Pusat Urus Zakat (PUZ) is a trusted body with a role to make zakat management is well organized, efficient and effective. Even Malaysia has an institution that manage the zakat by regional, the problem and issue still rose up for some reason, a lot of complaints and case of zakat distribution is not really receive to those who qualify is doubted. This paper will further discuss about the Malaysian perspective of inefficiency issues encountered, potential payer and capacity building.

**Key words:** Zakat • Zakat Management • Malaysian Perspective

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### INTRODUCTION

Zakat is an important concept, method and way in Islam, where it ranks the 3rd place in the Pillar of Islam. Zakat is an obligation yet a must to all Muslim, in order to balance the socioeconomic amongst Muslim society, in these case Malaysian perspectives. A respective state authority who directly involved in zakat management will continuously carries out the following errands; promoting the zakat, collecting the zakat, distributing in an organized manner to those who need that has been describe in Shariah. The word zakat is derived from an Arabic word which "that which purify" and "that which foster" [1]. In other hand, zakat also bring a meaning of giving or virtue. As per said in Holy Book of Islam, Quran mentioned zakat as "sadaqat", convey the meaning of giving and do the charity [2]. Measuring how productive inputs are turn into outputs is the best words to describe efficiency [3]. Effectiveness is concentrated primarily to the outputs of goods and services based on the activities undertake in management. In Malaysia, a body that

manage the zakat such State Islamic Regional Council (SIRCs), plays an important roles to promote the solidity of socioeconomic by zakat collection activities. Today in Malaysia, we can see the improvement over the zakat management efficiency since 1990s where it is the first time SIRCs being incorporated. The objective of this paper is crystal clear at a glance where to identified the Malaysia zakat administration and management efficiency and the problems that might encountered during the process of zakat collection.

**Problem Statement:** Zakat is where a people contributed his or her wealth by specific requirements to the beneficiaries who qualify to get it. Zakat also becomes an obligatory action to every Muslim in this world with an objective to fight against poverty and imbalance over economics and also to take care over Muslim-society social problems such theft and beggars. The respective authority body was introduced in Malaysia to manage the zakat collection known as State Islamic Regional Councils (SIRCs). The success and efficient SIRCs will help to

expedite the economy on the poor through capacity building and transformation of mind set [4]. The improvements of zakat administration in Malaysia tremendously expand and evolve to remain the efficiency and effectiveness of it since 1990. Where the term effective as explain in the introduction is refer to the inputs and outputs in the management activities to determine how the inputs turns into outputs with a predetermined conditions. In Malaysia, a zakat institution has been doubted with their efficiencies and effectiveness, as the question arise with their capability and ability to manage the zakat collection and zakat distributions. Some issues might arise from the misunderstanding of citizen over SIRC's and some might be from the weaknesses of SIRC's itself. Here, this paper will seek the issues that might be encountered in zakat administration is Malaysia by referring to literature and result from previous research made.

### **Literature Review**

**A Glance of Zakat:** There are three meaning of zakat in term of linguistically, theologically and legally. In a linguistically, zakat mean purify or the cleansing of wealth from any reasons that make the wealth becomes dirty. Purification of one spiritual is a theological definition of zakat and on the other the legal side explains the transfer of ownership of one property of specific amount to other individuals with specific circumstances. In Quran, Allah S.W.T has command (22:78) so establish the shalat and give zakah and hold fast to Allah. In other verse in Quran tells us about zakat in [9:60] Charities (Sadaqaat) shall go to the poor, the needy, the workers who collect them, the new converts, to free the slaves, to those burdened by sudden expenses, in the cause of Allah and to the traveling alien. Such is GOD's commandment. GOD is Omniscient, Most Wise.

A person wealth is assumed as dirty if they are not able to pay the right (obligation) to Allah S.W.T. servant from the wealth awarded to him/her [5,6] tells zakat is literally means grow or increase. The growth or increase is work into two dimensions that assume zakat is a development of one spiritual to please Allah S.W.T and seek for His blessed. Next, zakat works as the reallocation of wealth that lead to indulgence at the same time stimulate the growth of it [3].

Zakat has divided into two categories which are Zakat Al-Mal and Zakat Al-Fitr. Zakat Al-Mal is zakat that that deduct from the wealth possess by one Muslim, while zakat Al-Fitr imposed to all Muslim. Zakat Al-Fitr collection start in Ramadan, but value will be determined

by SIRC's and the amount to be paid is different based on regional. Al-Mal makes the owner of wealth paid a certain amount of money when their wealth is exceed a number that has been determined called Nisab. At the end of the year, the amount of Nisab will be calculated to determine the amount to be paid to SIRC's [7]. The reference used in zakat practicing is books written by Yusuf Al-Qardhawi [8] entitle "Fiqh Az-Zakah" that popular amongst Muslim countries. Other than that, the zakat implantation also refers to the four Schools of Thought which are Hanbali, Maliki, Hanafie and Shafie.

The impact of zakat to Muslim economy is very significant. Zakat collections are ranging of livestock, gold and silver, farm produce goods and also trade inventories. According to [9] zakat impose to all the things that have high in value except for personal belonging and also family belongings.

**Malaysia Zakat Administration:** The management and administration of zakat in Malaysia is controlled by the State Islamic Religion Councils (SIRC's) where the main purpose of the establishment is to centralize all the Islamic Religious activities at state level. SIRC's also becoming a member of Sultan's advisory councils concerned on Islamic Affairs for each state [10]. The federal government has limitation from involving the state decision made up by state and also regarding the zakat collection owned by state. Zakat Collection Centre located in Federal Territory is the first institution established to perform the task of collecting zakat and it has been corporatized in year 1991. A total of 14 SIRC's over Malaysia where 13 of it is belong to the state and one for Wilayah Persekutuan KL. Later on, Pahang, Selangor and Penang followed the footstep of Zakat Collection Center of Federal Territory in 1995. Next are Negeri Sembilan and Melaka in 2006 and the corporatized of Sarawak Baitulmal Fund started in 2001 and the newest one is Pusat Zakat Sabah in 2007 [11]. The reason of privatization of zakat institution in Malaysia is to enhance the capability and the effectiveness of zakat collection and the distribution of zakat under the State Islamic Religion Councils. The privatization of zakat institution is merely to enhance the use of management introduced by state by using specific computer software system to allocate the asnaf (beneficiaries) into the database and to reduce the bureaucracy that might slow down the distribution process of zakat. According to Ahmad and Shofian [12], the efficiency of system used and operation, it will encourage other expert and those who obtain a qualification in Islamic studies, banking, finance, marketing and information technology, business

administration, management and communication to join any zakat institution where portray good picture about this organization though.

**Factors Affecting Zakat Efficiency:** The competencies of managing and administrating the zakat collection should be in high level. Zakat is the way of improving social and economics in one Muslim country. Zakat also close the gap between the poor and the rich and it also can maintain the fairness and justice in term of economic distributions. Some reasons give the impact to the zakat efficiency in Malaysia, thus the reasons are kind of human resource, the used of ICT, corporate governance, number of reachable branches or collection point and claim point and last the corporation.

**Number of Staff:** In order to increase the total outputs, human capital should be slightly increase too, where the shortage of human capital will slow down the process of making high outputs. As [3] said that the human capital help and conduct the organization in order to achieve specific organizational objectives. SIRC's should increase the number of workers to ensure the efficiency of zakat collection is guaranteed.

**ICT Usage:** The existence of computerized system in managing zakat will lead it to improvement and at the same times it increases the efficiency and accelerates the staff working progression [3]. Information Communication Technology brings zakat institution in front by integrating all the resources they need at the right time. The information and knowledge are brings together and this environment create by the usage of ICT. The benefit of ICT is fully utilized by zakat institution by using of application software to make the administration becomes modern and useful. The development of Web-based, Zakat Payment System and also Zakat Computerized System will help zakat institution reach a target people from a remote location.

**Corporate Governance:** As per explained before that zakat administration are controlled by SIRC's, that means the governance will be slightly different from another state. Some state might have different policy and procedure in order to increase their efficiency. According to Meon and Weil [13], efficiency of one organization relatively close to better governance. While Norazlina [3], stated that the board size, a number of audit committees and meeting represent an effective zakat management.

**Number of Branches:** Chang & Chiu [14] explained that a number of branches significantly improved the efficiency, while Norazlina [3] branches will have direct accessibility to the public. In this case, a number of reachable branches of zakat collection center will help public easy to go and pay the zakat and on the other hand the asnaf (beneficiaries) also can easily come and make application for zakat assistance.

**Corporation:** The corporatization of zakat institution since 1990s has proved that they manage to cater all the aspects and yet become so efficient. Corporation means the evolvement of government asset into state-owned entity as to develop corporate management system into the operation, management and administration. Norazlina [3] justify the corporation of zakat institutions is expected to increase their outputs and efficiency.

**Challenges/Issues:** The evolution of zakat institution in Malaysia took place since 1990s, where a lot of improvement in various aspects such the human capital, corporation, ICT usage, increase in number of zakat branches and many others. The improvement a little bit convince people how zakat institution doing their works as well as helping those beneficiaries. But still problems rose up, even when zakat institutions try to cater all the weaknesses they possess. Zakat institution should first sketch the problem they faced, this is to helps them in minimizing the issues and problems. No matter how good the system they develop and used, if zakat institution failed to provide satisfactions and serve the needy and poor, inefficiency still considered as remain [15]. Today's technology is becoming so advance, where all information is at your fingertips. As reported by [3], Malaysia zakat institution still in the state of inefficient as the number of fuqara and masakin are increase in number. The negative perception triggered when [16] reported that there is misled of zakat fund. So this will illustrate the negative perception toward zakat institutions around Malaysia regarding to their transparency and efficiency. Following might be an issue to zakat institutions in Malaysia:

**Incompetence:** Inefficiency in term of distributing the zakat fund to right beneficiaries has been argued for so long. The zakat fund distribution process considered as inefficient because the fund is not reach the receiver effectively. The increase of poverty number as reported in previous research shows that the distribution is very bad. Too much bureaucracy is one of the issues that cause all operation becomes slow-down and time consuming.

As for example, for applying education aid from zakat institution, it takes years for students to get the fund. In some other state, students are required to apply for education loans, before they are able to receive the zakat. [15].

**Capacity Building:** The give or distribution of zakat will solve poverty problems in a short while. Where the needy and poor is not expanding at anything they have and only depend on the next zakat fund. The need on permanent answer to keep the needy and poor keep survive in their daily live is to look into some idea that might help them building themselves in term of skills and knowledge. The help of monetary-based can be replaced by funding poor and needy children to a training or education. This will always be a good effort, where they can expand their live if they have a skills and knowledge. According to Azman *et al.* [15], the capacity building tactic will have positive impact in develop the needy and poor economy and standard of living, yet to turn the zakat receivers into zakat payers later.

**Potential Payers:** Zakat fund collections are sometime decreasing even the population at one area in quite a number. This proved by Zakat Selangor report, explained that over 2 million Muslim in Selangor, only 160,000 people paid the zakat and this is very shocking. The ratio of population and the payers are inconsistent. There is a big trouble when public are not aware of their obligation to pay the zakat. The method of collecting the zakat should be change, as normally do like pay at the mosque, at the counter open in public area and also at zakat counter, the new approach should be develop in order to keep the public aware about zakat. Refer to Azman *et al.* (2012), he said that zakat collection method should be change from waiting at the counter into new proactive ways such promoting, briefing and educate all Muslim in public and private sector. A new approach such auto-deduction from monthly salaries, helps the zakat institution collect the zakat with minimum effort.

**Methodology:** This paper used a data and information from previous research as the methodology to review this topic thoroughly. The data collection for this particular conceptual paper might be from the distribution of questionnaire and parts of interview session with respective respondents include public, zakat institutions and expert. The information gathered also come from journals, books, statistic and annual report. The data and result of this study are from the literature review and findings from various journal and articles.

## CONCLUSION

In conclusion, paying the zakat is an obligatory to all Muslim not only in Malaysia but also around the globe. As it has been stipulated in many verses in Al-Quran, paying zakat is part of Muslim responsibility, where to help the eight beneficiaries to undergo their live. Paying zakat also a method to clean one wealth from dirt and get blessed from Allah S.W.T. Zakat also a tool for Islam to fight or against the poverty across Muslim society and to maintain the stability of socioeconomic. Malaysia have an authorized body who manage zakat called State Islamic Religion Councils (SIRCs) that works independently to their state to ensure the zakat administration and management become more efficient and effective. The zakat institution also plays important roles as to collect recognize beneficiaries and then distribute it to those needy and poor. Since the corporatization of zakat institution in 1990s, there are a lot of improvement in term of efficiency and effectiveness seen, but it is not a comfort zone for zakat institutions, a lot of issues raised where the distribution of zakat and misled of zakat fund being argued for so long. This kind of problems create negative social stigma toward zakat institutions. Zakat institution have improved a lot and no doubt the improvement help them so much in term of efficiency and effectiveness, but they also have to alert with some issues that they might encountered in the future. Proper planning, audit and the use of ICT will help them cater this future problem soon.

On the other hands, tax-compliance influences the economies of countries [17]. Developed and developing economies, are both affected by this phenomenon [18], with the level of tax non-compliance in developing countries much more than that of developed countries [19]. Consequently, many researchers in various fields have been attracted to investigate the issue of non-compliance. In the context of the Middle East region, it has become one of the important areas that have contributed to the growth of the global economy [20] and the existence of tax non-compliance in this region has also been reported (Central Organization for Control and Auditing COCA, 2014). Moreover, lack of tax compliance studies in the region are well observed [21,22]. Yemen, as one of the Middle East countries, has been classified as the least developing country that suffers from a high volume of economic, financial and administrative corruptions [23]. This paper aims to provide an investigation of tax non-compliance problem in Yemen, as one of the Middle Eastern countries.

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