

GOVERNANCE ISSUES IN MANAGING ZAKAT FUNDS: THE EXPERIENCE OF SELECTED ZAKAT MANAGEMENT INSTITUTIONS IN MALAYSIA¹

Shamsher Mohamad^{1,a*} and Zulkarnain Muhamad Sorri²

INCEIF University, Kuala Lumpur, Malaysia

*Corresponding Author: shamshermohd57@gmail.com

Abstract: *Technically, zakat means a fixed proportion of wealth collected from the rich individuals to help the poor and in need so that the recipients purify their hearts from the feelings of envy, jealousy and anger towards the rich. It is the third pillar of Islam that address the economic inequality gap in a Muslim society, and its importance is indicated by the fact that it is not only mentioned at least 58 times in the Quran, but the potential recipients of zakat are clearly identified. The main responsibility of managing the collection and distribution of Zakat funds is on the state governments that have set up designated zakat institutions to perform this important religious responsibility. To ensure that the zakat institutions dispense their responsibilities in the best way possible without fear or favour to assist the poor and the underprivileged, there is a need for a proper zakat management system with good governance practices that properly incorporates the attributes of transparency, accountability, efficiency and fairness. A well-managed zakat institution with proper governance will not only instil public confidence and trust in these institutions but serve the objectives of zakat as ordained by Allah in the Quran. This paper deliberates on the issues of governance in the collection and distribution of Zakat Funds at selected Zakat institutions in Malaysia. It highlights some important governance issues that need immediate attention for Zakat institutions to dispense their responsibilities in a more transparent and efficient manner. The current mode of administration of zakat funds has significantly contributed to these issues. Some solutions are suggested to address the highlighted issues in view of improving the transparency and efficiency in administrating zakat funds at these official zakat centers.*

Keywords: Governance, Zakat Funds, Zakat Institutions, Efficiency and transparency

1. Introduction

Technically, zakat means a fixed proportion of wealth collected from the rich individuals to help the poor and in need so that the recipients purify their hearts from the feelings of envy, jealousy and anger towards the rich. It is the third pillar of Islam that address the economic inequality gap in a Muslim society, and its importance is indicated by the fact that it is not only mentioned at least 58 times in the Quran, but the potential recipients of zakat are clearly identified.

The main responsibility of managing the collection and distribution of Zakat funds is on the state governments that have set up designated zakat institutions to perform this important religious responsibility. To ensure that the zakat institutions dispense their responsibilities in the best way possible without fear or favour to assist the poor and the underprivileged, there is

¹ This work is benefitted from information gathered by Ms Mazrina Mokhtar.

a need for a proper zakat management system with good governance practices that properly incorporates the attributes of transparency, accountability, efficiency and fairness. A well-managed zakat institution with proper governance will not only instil public confidence and trust in these institutions but serve the objectives of zakat as ordained by Allah in the Quran.

The documented evidence to date suggests room for much improvements in the governance aspects of managing the zakat institutions in different states. Ahmad et al. (2006) examined the level of public satisfaction towards zakat institutions based on sample of selected respondents suggested dissatisfaction with the current practices of collection and distribution of zakat funds. Mustafa et al. (2013) pointed out that lack of transparency and proper management of zakat has created a lack of public trust and consequently most members of the public opt to pay their zakat directly to the targeted beneficiary. This is not healthy as it will lead to issues in correctly identifying the deserve recipients or even double payment if the recipient is already currently receiving funds periodically from the formal zakat institutions.

Abd. Majid (2007) explains that lack of standard practice for zakat collection and distribution in each state as each state is responsible on matters pertaining to Islam, as gazetted in the Islamic Law Enactments of the respective state. The Ruler in each state has the absolute authority as to the management and administration of zakat (Mujahid Rawa, July 2019)². Due to different enactments of the states, the organisational structure and administration of zakat in Malaysia differ from one state to another. Consequently, there is no standard requirements to manage the zakat funds efficiently and effectively (Alias, 2008; Wahab and Rahim, 2011) and no mechanism in place to ensure good governance practice.

From the administrative perspective, there are three different organizational structures of zakat institution in Malaysia (Wahab and Rahim, 2011). First, the traditional model where both the collection and distribution of zakat funds are administered by State Islamic Religious Councils (SIRCs). The second model is a combined model where zakat collection is managed by zakat centres while SIRCs manages the distribution of the funds to deserving recipients (Asnaf). The third model is the contemporary model where both the collection and distribution of zakat fund is managed by the zakat centre.

In an effort to improve the efficiency in collection and distribution of zakat funds, several of the State Religious Councils (SIRCs) have set up zakat collection centres. The Department of Islamic Development Malaysia (JAKIM) is the federal government agency responsible for the development of Islamic affairs in the country is bestowed with the responsibility to monitor the performance of the State Islamic Religious Councils in managing these centres and also the distribution of the funds. JAKIM is also responsible to regulate and standardize the laws and regulations pertaining to zakat and other Islamic matters. In 2004, the Department of Zakat, Waqaf and Hajj (JAWHAR) was established with the objective to strengthen institutions which are responsible in the administration of waqf, zakat, mal and hajj to enhance the efficiency and effectiveness of the service delivery system to attain the expected level of excellence, magnificent and fame (Alias, 2008). However, JAWHAR does not have any executive power over any zakat institutions in this country despite its mission to coordinate and strengthen the agencies governing waqaf, zakat, mal and hajj.

Governance issue in managing zakat funds is global phenomena. For example, an Australian zakat organisation called the National Zakat Foundation (NZF), was alleged to have used zakat funds to support counter extremism or Israel lobby related activities. Zakat

² Keynote address by YB Datuk Dr Mujahid Yusof Rawa at the launch of The World-Isra-Inceif Waqf Report on 12 July 2019

institutions in the United Kingdom, for example, are currently exposed to public scrutiny by the non-Muslims due to Islamophobia. The reputation of zakat institutions has been tarnished by the misconduct of management of the zakat institutions. In 2008, the Malaysian National News Agency (BERNAMA) reported cases of misappropriation of zakat funds in Selangor and in 2011, the case of a zakat collector (*amil*) in Johor who stole RM18, 000 worth of zakat funds he collected. Despite the public outcry against the misappropriation of zakat funds, in November 2015 the National Oversight and Whistle-blowers Centre (NOW), exposed alleged misappropriation of zakat fund totalling RM223,000 managed by Yayasan Pembangunan Ekonomi Malaysia (YaPEIM)³. These cases have severely eroded the public confidence in these institutions.

The alleged mismanagement of zakat funds also involves senior members of the government. In 2010, a Minister in the Prime Minister Department was alleged to have misappropriated zakat fund managed by Majlis Agama Islam Wilayah Persekutuan (MAIWP) to pay for his legal costs amounting to RM63,650. The Auditor General's report confirmed misappropriation of zakat fund by the Minister but recorded that he later refunded before the close of account in 2010. Most recent case of criminal breach of trust implicated 15 personnel including the Chief Executive Officer and six senior officers of Zakat Pulau Pinang (ZPP) who were arrested and charged for several counts of graft and bribery in May 2017⁴.

Despite the shortcomings mentioned above on issues of zakat collection and distribution, the total amount of zakat collection annually is on the increase due to increase in the awareness on the obligation to pay zakat among the young Muslims facilitated Apps that makes it easy to pay zakat. Recent statistics indicate that those who are eligible to pay zakat currently constitute those between 25 – 54 years of age group and constitute 41% of the total population. Furthermore, the application of financial technology (fintech) such as auto debit, internet banking, ATM machine and phone banking has increased effectiveness and efficiency in collection of zakat funds annually. Besides the technology, the direct zakat collection through zakat centres around the country and privatization of zakat institutions have helped increase efficiency of zakat management (Wahid et. al., 2009).

This article briefly examines the governance related issues at zakat institutions and suggest potential solutions to further improve performance.

Information on important areas for improvement in the governance practices at zakat institutions in Malaysia, was solicited via structured interviews of senior officers at selected states in Malaysia. The findings discussed in the next section is based on the insights obtained from the interviews.

2. Findings

The thematic discussion on the findings is based on aspects of (i) corporate structure and system of control, (ii) payment scheme for Amil (or the Zakat collector), and (iii) reporting line of communication for effective management.

An effective governance practices is reflected by the way the zakat institution is structured to manage the zakat funds. In general, zakat institution has to collect funds from those eligible to pay zakat and efficiently distribute to the identified recipients of zakat funds. Under the current format, the collection and distribution functions are done by separate entities,

³ <https://www.bharian.com.my/node/177728>

⁴ <https://www.bharian.com.my/berita/kes/2017/11/356708/ceo-zakat-pulau-pinang-didakwa>

to mitigate the possible misuse and mismanagement of funds by the responsible entities. For example, in the Federal Territory, the collection function is performed by the Zakat Collection Centre (Pusat Pungutan Zakat, PPZ) and the distribution to qualified recipients (*Asnaf*) is mandated to the treasury or better known as the Baitul Mal. The interviewees believed that segregation of collection and distribution functions does minimise moral hazards of manipulating zakat funds by the management and the appointed zakat collector or the *Amil*.

In some zakat centres, the zakat collection function is outsourced to appointed agents to collect zakat funds both from individual and business organisations and are rewarded based on some form of percentage-based commission to encourage maximum collections possible regardless of the strategies adopted and location of collection. However, the interviewees did highlight that there are instances that the appointed Amil perform zakat collection not only in the designated jurisdictions but illegally cross-border to collect from payers in other states that have many businesses and high net worth potential zakat payers. This is made possible when the Amil receives consent from Islamic leader of the respective cross border jurisdiction for zakat collection. To makes matters worse, some states encourage this cross-border zakat collection practice to the general public. The Amil does not issue and receipt for the payment which makes it difficult for Zakat payers to claim rebate from tax authorities without proof of payment.

The distribution cycle of the zakat management process is also subjected to abuse and manipulation by zakat officers. Interviewees cited that activities like consultancy and development are most likely areas subjected to manipulation. The zakat officers may appoint vendors or contractors for supplying goods or services for zakat institution's activities, and as a token of appreciation for appointing them, these vendors and contractors do personal favours to these officers like house renovation. Thus, it was suggested that zakat institutions should award projects through an open tender system. From a bigger perspective, zakat institutions require leaders with high ethical values and integrity to instil good governance practices in managing the zakat funds. Incidences like using office's assets for personal use, employing vendor/contractor for personal services (i.e. potential 'kickback' to the zakat officers) and practices of giving 'kickback' for zakat money distributed to Asnaf should be totally eradicated with zero-tolerance for corruption benchmarking.

An interviewee also highlighted the fact that though there are efforts to curb the unethical and weak integrity behaviour among zakat officers, through the application of the Anti-Bribe Management System (ABMS) offered by SIRIM, asset declaration and sign a Letter of Undertaking as recommended by the Malaysian Anti-Corruption Commission, these are just procedural compliances that does not guarantee the misbehaviour of the zakat officers. Integrity and ethics are values imbibed from home by the family and we cannot expect the officers to change their behaviour by just asking them to comply with a code of corporate governance or best practices and/or just attending short courses.

Another possible way to ensure good governance practices is to consolidate the line of reporting for zakat institutions to a dedicated agency under the administration of central government. Unlike commercial finance industry, there is no designated regulator to monitor and supervise zakat institutions on good governance practices, except for the ruler of respective states or head of state for states without sultan like Penang, Federal Territory of Kuala Lumpur and Labuan and Melaka. Though the idea is noble and intention is clear, in practice is far short of expectations as it is not well-accepted the state authorities.

3. Conclusion

The management of zakat funds by zakat institutions has drawn public attention due to large amount of zakat funds (that exceeds a billion of ringgit annually) in some states that are placed under their administration, and the often-reported incidences of breach of trust and mismanagement of funds. These are cases that were identified and reported. Though the zakat institutions are expected to demonstrate good governance practices such as accountability, efficiency and transparency, in delivering their responsibility, the reality is far from the expectations. This article briefly examined the governance issues in zakat institutions based on face-to-face interviews and telephone conversations with senior officers of selected zakat management centres that have huge volume of collections and distribution of zakat funds annually. The main issues of concern are the corruption and mismanagement of zakat funds with no proper mechanisms to seriously address these issues due to administrative inexpediency. There is an urgent need for the Ministry of Religious Affairs in Malaysia to develop a standard governance framework for zakat institutions with mandatory obligation to comply with the standard practice to ensure a proper accountability, efficiency and transparency. The robust governance framework should have principles of good governance embedded in serving all their stakeholders be it, the Ruler, the employees in the zakat institution, the zakat payer, the zakat recipient, the environment and community as a whole.

The Ministry of Religious Affairs should benchmark the Malaysian Code on Corporate Governance (MCCG) issued by the Securities Commission. The code was first introduced in 2000 and it has gone through several revisions in 2007, 2012, 2017 and 2021 can be used as a guide to develop a comprehensive zakat governance framework. Therefore, the Ministry of Religious Affairs of Malaysia should be mandated to formulate a comprehensive Islamic Governance Framework to govern affairs of institutions related management of zakat, waqf and *infaq* in a systematic and uniformed manner. A comprehensive Code of Islamic Governance could be effectively developed through the consultations with various stakeholders. The structured and comprehensive approach will not only establish a high standard of Islamic governance for best practices but also ensure that the management of zakat institutions adapt the code of Islamic governance through its own internal codes and procedures.

References

- Abd. Majid, M.Z. (2007). Pemantapan sistem zakat dan cukai ke arah kemajuan ekonomi ummah. kertas kerja dibentangkan dalam konvensyen Zakat & Cukai Peringkat Kebangsaan di PWTC. Kuala Lumpur. 22- 24 Mei 2007
- Ahmad, S., Wahid, H., & Mohamad, A. (2006). Penswastaaan Institusi Zakat dan Kesannya Terhadap Pembayaran Secara Formal di Malaysia. *International Journal of Management Studies*, 13 (2), 175-196.
- Alias, M.R. (2008). The role of zakat institution in alleviating poverty: Malaysian experience. *IKAZ International Journal of Zakat*, 1(1), 65-92
- Mustafa, M.O.A., Mohamad, M.H.S., & Adnan, M. A. (2013). Antecedents of zakat payers' trust in an emerging zakat sector: an exploratory study. *Journal of Islamic Accounting and Business Research*, 4(1), 4 – 25

- Wahab, N., & Rahim Abdul Rahman, A. (2011). A framework to analyse the efficiency and governance of zakat institutions. *Journal Of Islamic Accounting And Business Research*, 2(1), 43-62. doi: 10.1108/17590811111129508
- Wahid, H., Ahmad, S. & Abdul Kader, R. (2009). Distribution by Zakat Institutions in Malaysia: Why the Muslims are not satisfied? *Shariah Journal*, 17(1).