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MANAGEMENT OF ZAKAH: CENTRALISED VS DECENTRALISED APPROACH

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ABSTRACT

Zakah is one among five pillars of Islam that plays a very important role in the life of Moslems, especially due to its 'take and give' nature in the relationship among people. Zakah is as important as prayers (sholah) as it is indicated in the Qur'an that often mention the instruction of sholah followed directly by the instruction of zakah. As it is levied on the wealth of the Moslems, zakah might involves a significant amount of money, accumulated from the zakah payers (muzakki) and distributed into the zakah recipients (mustahik). It involves transfer of wealth from the rich to the poor. The main objective of zakah is to achieve equitable distribution of income in the society so that income gap can be narrowed. Therefore managing zakah funds under zakah institution become very significantly crucial and strategic for the welfare of the ummah. From macroeconomic perspective, there are basically two approaches in managing zakah, the centralised and the decentralised approaches. This paper discusses these two different approaches, by evaluating both approaches to come to conclusion which one is best.

1. Introduction

Zakah is the most important element of financial structure in Islamic perspective. The importance of zakah as integral part of the obligation of Muslim can be seen that there are about twenty places in the Qur'an mentioning the instruction of zakah consecutively with the order to perform prayers (Siddiqi, 1968, p.8). Zakah literally means growth and increase as well as purity (Siddiqi, 1968, p 28 and Zayas, 2003). Growth means that giving of zakah leads to increase of property in this world, development of religious merit in the next. Zakah is leviable on things which have a capacity to grow capital so that no zakah is leviable on instruments, residential

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houses, clothes, household effects and other objects which are not capable of production or increase (Siddiqi, 1968, p. 10).[3]

Qur'an states that zakah causes the purification of our property and causes purification the prayer from the sins (QS:9:104). Zakah has been defined technically by the Hanafite as 'the giving, as an act of piety, of a legally stated portion of one's property to a poor Muslim who is not of the Hashim family or their client in such a way as to preclude for the giver any short of benefit'.

There is another term having similar meaning with the term of zakah, i.e. 'sadaqah'. It is a more generic term and includes both voluntary and optional 'alms. Thus every zakah can be considered as sadaqah, however only obligatory sadaqah will be included as zakah.

Talking about zakah unavoidably include taxation due to close relationship between these two terms. If zakah is attached to individual religious obligatory, taxation is attached obliged individual citizenship relation with government. The secular taxes are purely civil obligations and free of religious implications (Siddiqi, 1968, p. 172). While the tax rates are designed and modified by the government (mostly in progressive rates), the rate of zakah are based on Islamic law and uses the fixed rates (QS:70: 24-25)[4].

In addition, there are some important similiratities and dissimilarities between zakah and tax as indicated by Hannan (1998). The similarities include; a) zakah is liable to be collected by force like tax if the payer does not pay it willingly. This position is applicable where the state compulsorily collects zakah. The Qur'an and Sunnah states clearly that it is the obligation of an Islamic states which follow Islam to collect zakah; b) Zakah collected in an Islamic state has to be kept in the state treasury, in a separate account, like tax. If zakah is collected by non-government organizations, this fund should be kept safely as in the case of any public fund; c) Zakah, like tax, is paid though there is no direct and equivalent economic benefit is obtained by the payer.

Whereas the dissimilarities between zakah and tax include; a) Zakah is an ibadah (act of worship) which Allah has made compulsory on human being to express gratitude to Him and to obtain Taqwa. Tax is social obligation without having special sense gratitude to Allah. While zakah is essentially a matter between Allah and His

[3] The properly subject to zakah are: a) the zakah of the produce of silver and gold mines; b) treasure trove; c) the spoils of war; d) the zakah of trade; e) domestic animal; f) pasturing horses; g) agricultural produce h)lands and Kharaj land; i) honey and silk; j) zakah al fitr; and k) the zakah of the partnership (Farishta de Zayas, 2003)

[4] The rate of zakah in details are: 1) 2.5 percent per annum on gold, silver or ready money; 2) 10 percent on agricultural produce (land watered by rainfall); 3) 5 percent on agricultural produce (land watered by artificial device); 4) 20 percent per annum on produce mines and on treasure trove; 5) for animals varies depend on animal types (Maududi, 1984, p. 59)

servants, but tax has been primarily a matter between citizens and the states authorities; b) Zakah is based on nisab, any wealth below a limit is exempted from zakah. This is not true in the case of many taxes in modern times; c) Zakah is a permanent and regular system. None can change it in any way. On the contrary, most of the tax undergoes change from time to time.

Another religion has the same concept as zakah namely 'tithe' which is obligated to Christianist. It differs from the tithe in that it is destined wholly to eight classes of beneficiaries and no part of it may go to the state, the function of which is only to supervise, custody and distribution. The tithe on the other hand went to the Church which discharged it as it deemed fit (Zayas, 2003, p. xvii).

Although there is different meaning of the term zakah and tax, some author said that zakah is a type of tax (for example Siddiqi, 1968). He said that zakah is the main tax in Islamic state. Besides zakah, other types of revenue in Islamic State are; 1) fay revenues such as Jizya (collected and spent on the non muslim citizens); Kharaj; custom duty; waqf; 2) the booty revenue such as tax of mines and taxon treasure trove; and 3) property lost and found and the estates left by Muslims who have no heirs or leave only a husband or a wife.
The institutions of zakah have been existed since time immemorial. The Qur'an presents many verses that are addressed to various Prophets, from Adam to Muhammad, telling their people to give zakah, for example Adam (QS:2:37,47); Abraham (QS:21:69, 71-73); Ismael (QS:19:54-55); Moses (QS:7:155-156) and Muhammad (QS:2:277).

1. How to pay zakah?

As stated above, no part of zakah fund goes to the state or goes to zakah institutions instead of going to the eight classes of beneficiaries. So that there is no rule that someone has to pay zakah through zakah institutions. When the zakah is disbursed directly to the needy, the question whether or not the obligation is discharged depends on whether the person to whom zakah was disbursed was a lawful beneficiary of the zakah. If the zakah payeris in doubt he may use his intuition (taharri) to decide. In this regard the following cases are conceivable;

1. The zakah payer gives zakah to persons without doubt at all on their financial condition. In this case the zakah obligation is lawfully discharged.
2. The zakah payer gives zakah to persons with reasonable doubt on their financial condition. In this case the zakah obligation is not lawfully discharged, and must be fulfilled over again.
   Zakah is more than a personal ibadah, it also is a social institution. As a social institution, even in the absence of an enforcement agency like an Islamic state, zakah should be playing a significant role in the society. Consequently, even though there is no ruke that someone has to pay zakah through some institutions, paying zakah individually loses musch of its significance (Siddiqi, 1968, p. 8). Zafree and Amin (1998) also recommended that zakah should be collected and disbursed through state mechanism to remove any overlapping between zakah and taxes.

3. Zakah institutions in the past

3.1. Zakah under the Prophet SAW

The obligation of zakah was received by the Prophet SAW in the 9th year of Hijra. Obeying this order of Allah, the Prophet sent his amils or tax collectors to all parts of Arabia to collect zakah on property, apparent and non-apparent. Animlas were among the apparent one while gold and silver were among the non-apparent property. Together with this amils, he sent amirs who presumably were in command of troops intended to enforce payment (Siddiqi, 1968, p. 192). At that time Islamic administration was the dual control, i.e. the functionaing side by side of two officers, one concerned with the collection of revenues and other being in command of troops and general administration. After zakah was collected, these funds were disbursed among those who were in need of help.

3.2. Zakah under the Khalifat of Abu Bakar

Avoiding zakah, as many of us doing today, is a tendency that revealed itself among us at a very early stage. No sooner that the Prophet die, that the zakah gatherers he appointed were expelled from many Arab tribes. These tribes were willing to remain Muslim provided no zakah was collected from them. Since they were willing to say prayer, to keep fasting and perform Hajj. Hazrat Omar requested the Khalifa not to punish them for this act of apostasy. But Abu Bakar was determined to teach them a lesson which would live in the history of Islam. He believes zakah is integral part of Islam together with shalah, fasting and hajj.
Thus Abu Bakar convinced Omar of the urgency to take action against those who refused to pay zakah. Abu Bakar realized the importance of zakah as a socio-economic factor in a growing society. Though the military and political situation in Arabia was grave, he proclaimed 'By Allah, I shall declare war upon those who will refuse to pay zakah or reduce it even by a string use to tie a camel's leg'. Subsequently, he ordered Khalid bin Walid to collect zakah from the tribes.

3.3. Zakah under the Khalifate of Umar

It was Omar the Great who first reorganised the establishment of the Public Treasury in 15 AH/638AD. During the lifetime of the Prophet, zakah, land-tax, and spoils of war were distributed among people at one sitting. Abu Bakar, following the precedent of the Prophet, maintained no treasury though a house for it did exist. When the accounts of the Public Treasury were checked, the balance amounted to only one dirham.

The importance of Bait-al-Mal, or Public Treasury, was first impressed upon the public by Omar, whose economic planning brought great revenue from newly acquired territories. After one year, Abu Huraira, Governor of Bahrain, deposited into it five lakh dirhams from tax. Omar called the assembly and asked their views concerning the disposal of this large sum of income. Ali was in favour of distributing it among the people but Usman opposed the suggestion, while Walid bin Hisham

suggested the idea of a treasury on the pattern of one he had seen in Syria in which the treasury and the office of accountancy were maintained separately. Omar approved Walid's plan and established the foundation of Bait-al-Mal for the future.

Abdullah bin Arqam, a well versed businessman, was appointed as officer of the treasury and a number of able men were appointed as his assistants. Besides the capital, treasuries were established at provincial headquarters and other central places. For treasuries, Omar built strong and grand buildings. At Kuffah, construction material came from the ruins of various old buildings. To remove the fear of theft, treasuries were often built along mosques. Under Omar, ten crores in land revenue alone was collected from Iraq, while under Ummayads and Abbasides, it never exceeded more than three crores. It was said that there were so much prosperity under Umar domain that often it was hard to find a deserving recipient of zakah.

3.4. Zakah under the Khalifate of Usman

Because it was alleged that zakah-collectors often embarrassed the people while discharging their duty, Hazrat Usman delegated to the donors the power to distribute zakah funds on non-apparent property such as gold, silver and jewels among the needy. Some writer claimed that Hazrat Usman was in favour of the people depositing zakah in the Public Treasury, deducting the amount they had already paid the poor. It appears that the people were given the power to assess the sum due for zakah, make payment to the needy and then deposit the rest into the Public Treasury.

3.5. Zakah under the Umayyads

Omar bin Abdul al-Azis re-established the institution of zakah in its original form. He appointed amils or collectors in different parts of the Muslim world, to gather zakah on apparent (such as animal) and non-apparent (gold, silver) wealth. In broad outlines the provincial administration under the Umayyads was that at the head of the province stood the amir, or wali, who was appointed by the Khalifate and charged with every charge of a monarch (Siddiqi, 1968, p. 194). His charge was the chief officer of the province and sometime combined with the charge of revenue administration.

3.6. Zakah under the Abbasides

Zayas (2003, p. 309-338) explained in details how zakah should be managed. This paper only describes some of her arguments. *First*, institution of zakah should be established in the fold of Muslim society in an organised manner and under the responsible supervision of various Muslim governments or as a special international Muslims supervisory body appointed by governments. *Second*, zakah centers are to be established an all villages, town and cities within Muslim territory. The various zakah centers from a head center to branch center are to be placed in charge of authorised officers directly responsible to the state and to the Muslim public for the proper functioning of their respective center.*Third*, the members of zakah staffs included officers in charge, should preferably be choosen among the local inhabitants, and *Fourth*, zakah funds derived fromany given source must primarily be dedicated to the welfare of those types of beneficiaries actually existing in the said locality. A

reasonable portion of the zakah funds must always be kept in reserve at each branch zakah-center for the use of eventual beneficiaries to whichever class or group (i.e. casual, temporary, or regular beneficiaries) they may belong. *Fifth*, the law of zakah must allow the transfer to deficiency areas of zakah funds from other areas on condition that these be *definitely surplus* to both the regular and casual requirements (i.e. those served by reserve fund). But in no case should all of the surplus at any given branch zakah-center be unnecessarily send elsewhere as, in the case of an unforeseen emergency, such action would result either in the fund in question having to be retained to their place of origin, or in other funds having to be sent to replace them, and those would involve useless labor, expenses and loss of valuable time.

Transfer of zakah fund subject of some disagreement among jurist of Islam (Zafree and Amin, 1998). Maliki and Syafii also Ghazali are averse to the transfer of zakah and allow it only when there is lack of deserving poor persons in the locality where the fund derived. Hanafite school of law supports transfer of zakah fund. This stand fully conforms to the spirit of Islam unity. *Sixth*, in order to coordinate the functioning of the various zakah centers detailed report must be regularly submitted (preferably once a month) to the zakah center.

4. Zakah Institutions in Some Countries

4.1. Pakistan

In Pakistan the system of zakah was introduced through the Presidential Ordinance in June 1980 which provides for assessment, collection, disbursement, inspection, audit and evaluation arrangement (Mannan, 1998). The zakah law applies to all Muslims citizens of Pakistan, but if a person feels that the zakah levies are not in accord to his faith and school of fiqh, he can seek exemption from such levies by filling a declaration on oath, according to a prescribed procedure (Islam and Sarker, 1998).

The zakah and ushr system has a five-tier zakah organization. Three is a Central Zakah Council (the highest policy making), Provincial Zakah Council (one in each province), District Zakah (one in each district), Tehsil Zakah (one in each Tehsil, i.e. a subdivision of district) and Local Zakah Committee (one for each village in the rural areas and one for each Mohallah, i.e. a small residential area in the urban areas (Shirazi, 2003)

The 18-member Central Zakah Council is headed by a judge of the Suprem Court of Pakistan, 10 non-official members including three uleam and two women, and seven official members including the Administrator General of Zakah of Four Provinces. The 10-member Provincial Zakah Council in a province is headed by a judge of High Court, five others non-official members, including three ulema and four official members.

The seven-member District Zakah Committee consists of a Chairman who is non-official, 5 others non-official members and the Deputy Commissioner. The seven-member Tehsil Committee consists of a chairman, the Assistant Commissioner

of the Tehsil and five non-official members. The seven-member Local Zakah Committee consists of a chairman and 6 members who are all non-official.

There are at present about 39,000 Local Zakah Committees working through the country and more than250 thousands persons are voluntarily involved in the working of the system (Shirazi, 2003). The financial institutions involved in the collection do not charge any fee either. The ushr assessment and its collection are free of cost. This volunteer work makes the administrative system of zakah and ushr (agricultural good) unique.

The Government of Pakistan has also set up a National Zakah Foundation, which finances various projects to provide regular income to the deserving people. It has detailed procedures for scrutiny, approval, inspection and monitoring of project (Mannan, 1998). Zakah is deducted compulsory once a year at the rate 2.5 percent on eleven types of assets; saving bank account; notice deposit account; fixed deposit account; saving/deposit certificates; National Investment Trust Unit; Investment Corporation of Pakistan Mutual Fund Certificates; Government Securities; Securities; Annuities; Life Insurance Policies; Provident Fund Credit Balances. In addition there are asset should be paid by self-assessment basis, i.e. gold, silver, and manufacturing products; cash; prizes bonds; foreign currency account; loans receivable; stock in trade; agricultural produce; animal fed free in pastures.

In Pakistan, zakah is distributed among the deserving people through local zakah committees. The Central Zakah Council transfer a certain amount of zakah to provincial government for onward disbursement. Sixty percent of the total amount received from the CZC is distributed directly among the needy people as subsistence and rehabilitation allowances, while 40 percent of the amount is distributed through the Educational Institutions, Islamic Religion School, Health Institutions and Social Welfare Institutions. On average, about 60 percent of the total collected amount was transferred to the provinces and about 40 percent was retained by the CZC. Some of the zakah funds retained by CZC were transferred to the national medical, educational and welfare institutions, baitul mal and some were distributed on emergency grounds among the people affected by flood and other national calamities.

Shirazi (2003) studied the redistributive effect of zakah across the income groups in Pakistan. He classifies income group into three classes. The first group is household as recipient of zakah (low income). The second groups are both recipients and payers at the same time (non-poor group but receive zakah because of misappropriation of zakah transfer). The third group is the zakah payers (high income). The result of the existing zakah system is not encouraging. The annual average income per household in the first income group increased in the range of 0.20 to 1.20 percent. This is due to the halfhearted and partial implementation of the zakah system. The zakah system is not broad-based and the entire asset which should technically subject to zakah is not included. Many exemptions have been granted in the collection of zakah, e.g. WAPDA, Bearer Bond, Special Saving Certificate, Current Account and Foreign Currency Account. Followers of the Al-Fiqh al-Ja'fari (Shi'is) are exempted. Several rich Sunnies are known to have declared themselves as Shi'is in order to evade the payment of zakah. However the potential zakah collection and distribution has a significant effect on the household income in the income group

ranging from 10.63 percent to 19.23 percent. Therefore, zakah has its potential role to play but demands serious efforts on the part of the government. This study used Kahf (1987 and 1989) estimates regarding the potential of zakah collection for Pakistan for the National Income Account.

4.2. Indonesia

Indonesia as the biggest Moslem populous country in the world has different experience in dealing with Zakah implementation. Until recently organizing zakah is being conducted by two types of institution. The first one is the one sponsored by society/community, this is known as Lembaga Amil Zakat (LAZ). The second one is the one sponsored by government which si known as Badan Amil Zakat (BAZ). Salim (2006) recorded that in July 1967, Saefuddin Zuhri as Minister of Religious Affairs, presented a draft Zakat Law to the legislature (DPRGR), but no further discussion from the legislature. In July 1968 Mohammad Dachlan, as Minister of Religious Affairs issued a Ministerial Decree concerning the foundation of the Badan Amil Zakat (the Zakat Agency) which was arranged for a governmental zakat committee to be established at alaa administrative levels across countries. This decree did not last long, when President Soeharto gave speech at the Isra Mi'raj celebration on October 26, 1968 announcing to take over the administration of zakat on a personal basis as a private citizen. The operation of the zakah agency under President Soeharto was maintained for only a few years to end in 1974 by collecting Rp 39.5 million and USD 2,473 for two years time. A number of provincial administrations established government-sponsored zakat agency called as BAZIS (Badan Amil Zakat Infaq dan Sedekah)

Then National Zakah Agency was established in 1996 throughout all provinces in Indonesia. The number of Zakah Agency in 1996 was 277 at district level, and 3160 at sub-district level, and 38177 at village level. (PIRAC, 2002). Meanwhile in 1997/1998 the numbers were 287, 3550 and 48041 for each area level respectively. In term of the volume of zakah funds, in 1997/1998, zakah al maal and zakah al fitr accounted for Rp 187,014,659,053.00 (Kasubdit Zawaib Depag, 2002)

Besides government sponsored zakat agency like BAZIS, there also emerges many private-community-sponsored zakat agencies known as LAZIS (Lembaga Amil Zakat Infaq dan Sedekah or Institutions of Amil Zakah Infaq and Shadaqah). Among these institutions which have license as national zakah agency are Yayasan Dompet Dhuafa (DD), Yayasan Dana Sosial Al Falah (YDSF), Yayasan Darut Tauhid (DT), Dompet Sosial Umul Quro' (DSUQ)/ Rumah Zakat Indonesia, Pos Keadilan Peduli Umat (PKPU), dan Baitulmal Muamalat (BMM). PIRAC (2002) recorded that the funds accumulated by these institutions are Rp 15 billion by DD, Rp 3.5 billion by YDSF, Rp 4.5 billion by DT, Rp 2.5 billion by DSUQ, Rp 3 billion PKPUand Rp 4.2 billion by BMM.

Hafidhuddin (2009) mentioned that in 2006 the collection of zakah at national level amounted to Rp300 billion, and it increased to Rp700 billion in 2007. In 2008, the number rise to Rp 900 billion. There is a consistent rise over time in the collection,

however the number is still not on par with its potential number at Rp 19 trillion per year.

As for the approach applied in Indonesia, it is obvious that the Indonesian case can be categorized into decentralized types, since she allows various zakah institution established by private/community. However, there is also a government sponsored zakah institution (BAZ), which exist side-by-side with community-sponsored zakah institution (LAZ). Recent data as shown in Table 1, suggest that LAZ (represented by Rumah Zakat Indonesia, Dompet Dhu'afa and Pos Keadilan Peduli Umat) even perform better than BAZ (represented by Badan Amil Zakat Nasional), especially if the collectability of funds be used as an indicator.

Table 1: Collection and Distribution of Zakah Infaq Shadaqah and Waqf by Zakah Agencies in Indonesia (in IDR)

1. Rumah Zakat Indonesia	2004	2005	2006	2007	2008	
Collection						
Zakah	3,226,837,816	5,171,371,253	8,216,443,928	14,565,276,604	27,674,349,143	
Infaq	396,374,081	533,122,697	2,192,749,091	6,829,071,947	7,114,154,213	
Waqf	34,442,000	278,664,400	65,045,000	501,556,100	865,517,823	
Total	3,657,653,897	5,983,158,350	10,474,238,019	21,895,904,651	35,654,021,179	
Distribution						
Zakah	1,329,276,147	2,185,123,653	4,522,831,769	21,294,406,673	11,981,717,757	
Infaq	1,746,498,501	4,398,949,923	2,204,404,495	3,785,293,394	4,650,295,569	
Waqf	9,086,813	1,167,000	24,412,600	150,961,375	40,830,825	
Total	3,084,861,461	6,585,240,576	6,751,648,864	25,230,661,442	16,672,844,151	

2. Dompet Dhu'afa	1424H	1425H	1426H	1427H	Ramdhn-Dzulhjh 1429H	Ramdhn-Muharm 1430H
Collection						
Zakah	13,855,762,439	15,316,930,269	18,412,116,845	20,255,341,469	21,990,774,599	23,506,663,650
Infaq	1,776,768,960	2,537,865,830	2,585,580,593	5,119,961,494	2,461,579,434	3,052,088,514
Waqf	369,300,500	637,983,000	517,912,500	1,313,559,280	1,022,073,549	1,174,481,511
Total	16,001,831,899	18,492,779,099	21,515,609,938	26,688,862,243	25,474,427,582	27,733,233,675
Distribution						
Zakah	13,642,687,375	15,720,464,884	17,293,422,280	27,890,564,171	20,931,436,929	23,972,907,453
Infaq	2,746,353,372	3,253,998,614	4,311,371,221	5,756,546,520	7,988,568,043	9,223,404,650
Waqf	38,310,300	11,012,014,900	1,376,712,000	1,207,904,000	559,859,200	605,467,500
Total	16,427,351,047	29,986,478,398	22,981,505,501	34,855,014,691	29,479,864,172	33,801,779,603

3. Pos Keadilan Peduli Umat	2004	2005	2006
Collection			
Zakah	5,886,698,783	7,038,524,001	9,929,756,539
Infaq	579,504,138	1,468,787,545	1,659,535,232
Waqf	11,920,000	187,175,001	30,646,447
Total	6,478,122,921	8,694,486,547	11,619,938,218

Distribution					
Zakah	2,461,432,065	7,648,239,467	7,206,966,929		
Infaq	27,628,420	239,881,500	802,730,787		
Total	2,489,060,485	7,888,120,967	8,009,697,716		
4. Badan Amil Zakat Nasional	**Apr-09**	**May-09**	**Jun-09**	**Jul-09**	**Ramadhan 1430H**
Zakah	1,333,894,416	951,571,626	970,058,460	97,648,396	7,561,654,155
Infaq&Shad	552,279,629	86,532,950	121,057,264	138,785,131	858,347,282
Total	1,886,174,045	1,038,104,577	1,091,115,724	1,046,433,527	8,420,001,437
Distribution	1,325,187,732	861,844,289	650,306,516	351,500,325	2,249,523,417
Accumulated up to	**Mar-09**	**Apr-09**	**May-09**	**Jun-09**	**Ramadhan 1430H**
Collection	4,263,772,892	6,150,455,028	7,352,506,435	8,121,630,545	11,590,901,693
Distribution	3,546,910,322	4,872,098,054	5,733,942,343	6,424,248,859	6,775,749,184

Source: Financial Reports of Rumah Zakat, Dompet Dhu'afa, Pos Keadilan Peduli Umat and Badan Amil Zakat Nasional, several editions

4.3. **Malaysia**

4.3.1. History of the Development of Zakah Institution

Malaysian Constitution has listed zakah under state authority. Though Islam is the religion for the Federation, it does not mean that the Federal Government has the fullest authority in religious affairs. The Malay Ruler or Yang Dipertuan Agong has formed its own Islamic Administrative law that is in line with the constitutional provision to execute its authority over religious matter. Normally provision related to zakah is part of the law.

Zakah institution in Malaysia has been established for the past 70 years. At that time Islamic Religious Council has been concentrating on zakah fitr and zakah on agricultural/zakah on paddy or rice farmers who actually the poorest section on the society. (Mohd Rais Haji Alias, 2004). There is no zakah on other agricultural products such as rubber, palm oil, and cocoa (Mohd Daud Abu Bakar, 1998). Thus serious consideration on the true potential of zakah of property is not given proper emphasis, such as salary earners, the managers and the businessman income.

Before 1991, the institution which has responsibility in zakah administration is Islamic Religious Council (Majelis Agama Islam) of each of the 13 states in Malaysia with the Federal Territory of Kuala Lumpur and Labuan having their own council giving a total of 14 Islamic Council in Malaysia. All matters pertaining the religion is the responsibility of the Islamic Council. Zakah management office under their respective Islamic Council of each state is normally known by various names such as Zakah and Baitulmal Office, Zakah Committee, Zakah Unit or Zakah department.

Apart from collecting zakah on mal/property, individual amil are appointed to collect zakah fitr in Ramadhan. The amil could be imam of mosque, government and private office staff or other officer elected to carry out such duty. This is a very close co-operation between the Islamic Council of the state and the respective state government as shown by the fact that the administrative of the council is provided by the Islamic Department of the respective state. The department is part of the government (Mohd Dahan Abd Latif, 1998).
At the federal level, the Prime Minister's Department, specifically JAKIM (Jabatan Kemajuan Islam Malaysia) is responsible for Islamic affairs administration for the whole country as well as coordinating various states. There are many programs and activities undertaken by JAKIM directly since the respective state government also funds Islamic programs, activities and project using the respective state funds.

In addition, there is a committee at the international level to establish cooperation among South East Asian Countries known as the Religious Council for Negara Brunei Darussalam, Indonesia, Malaysia and Singapore (MABIMS) and Organization of Islamic Countries (OIC) which represents 57 Islamic countries currently chaired by Malaysia (Mohd Rais Haji Alias, 2004).

4.3.2. Corporation Era

On March 8th 1991 a zakah office, the first to operate in a new corporate style in Malaysia, was established. It is known as Zakah Collection Centre-Islamic religious Council of Federal Territory applying corporate management techniques. The objectives of Zakah Collection Centre are:

1. Facilitate payers to perform their responsibility on zakah.
2. Provide information on the obligation on paying zakah through various methods so that those who are qualified would do do.
3. Introduce computerized zakah collection system.
4. Introduce corporate working style in the management of zakah collection

Zakah Collection Center was launched by Dr Mahathir Mohammad who stated that it was appropriate to shift the focus of zakah from the poorer section to those who have steady income such as salary earners and businessman.

The existence of Zakah Collection Centre (ZCC) in the Federal Territory marked a new era in zakah institution as this was the first time a computerized zakah management system is implemented. ZCC operates by giving clear explanation on zakah and its assessment. In addition, new payment counters were introduced for zakah payers.

The new approach includes corporatizing the management and administration of zakah collection by setting up a company under the Islamic Council to separate it from the rest of the administration of Islamic affairs which is very diverse. The company called Harta Suci Sdn Bhd manages ZCC and handles all matter pertaining to the collection of zakah on behalf of the council. All costs of collecting zakah were borne by the company and the council pays the company management fees monthly as an amil. Zakah collection and administration of ZCC was computerized which is

believed to be the first in the world. Online zakah counters were specifically opened to serve the zakah payers.

After Federal Territory, effort to corporatize was followed by other states such as Penang through its subsidiary known as Zakah Management Center (PUS) in 1994 and Selangor Islamic Council through its subsidiary Selangor Zakah Center also in 1994. Melacca followed suit by establishing Computerized Zakah Center in 1995, while Pahang setup its Zakah Collection Center corporatized in 1996. In 1997 Negeri Sembilan Islamic Council was the latest to incorporate its subsidiary known as Negeri Sembilan Zakah Center in 2000.

4.3.3. Evaluation of Zakah Institutions in Malaysia

4.3.3.1. The Development of Zakah Collection

The corporation has proven to be successful with the encouraging increase of zakah collection through the years. The actual achievement of ZCC can be seen from the improvement of zakah collection after its establishment, as indicated in Table 2. From 1995 to 2003 zakah collection increased by 3703 percent in Federal Territory, while in Malaysia, zakah collection increased by 886 percent during 1990-3002. In addition, average payment every year in Federal Territory is RM 34.11053 million and in Malaysia RM 190.2571 millions.

Table 2: Zakah Collection In The Federal Territory and In Malaysia (in RM Million)

	'85	**'86**	**'87**	**'88**	**'89**	**'90**	**'91**	**'92**	**'93**	**'94**
Federal Territory	2.6	3.2	3.8	5.1	6.5	8.8	15	21	26.9	34.4
Malaysia	NA	NA	NA	NA	NA	49	63	78	93.9	112
		'95	**'96**	**'97**	**'98**	**'99**	**'00**	**'01**	**'02**	**'03**
Federal Territory		33.6	42.9	52.8	45.7	36	58.9	70.3	84.5	96.3
Malaysia		124	162	204	198	196	261	320	374	430
Growth	'85-'03 Increase (%)				Average/Year					
Federal Territory	3,703.85				190.26					
Malaysia	886.60				34.11					

Sources: Annual Report, 1999-2003, Zakah Collection Center, Majelis Agama Islam Wilayah Persekutuan

4.3.3.2. The Efficiency of Zakah Collection and Appropriately Disbursement

Indicators efficiency mostly used to evaluates the performance of tax collection system are: 1) number of tax payers divided by number of employee; administrative costs divided by total revenue collected (World Bank, 2004). This paper argues that these indicators can be used to evaluate the performance of zakah collection. Because of the limitation of the data, this paper only uses administrative cost, i.e. payment to amil divided by total zakah collection and the development of tax payers. We do not have any data concerning the number of employee in each zakah collection centers.

As indicated in Table 3, during 1992-2003 in Federal Territory, the lowest total payers was 19,169 in 1999, and the highest one was 40,653 in 2003. The lowest average payment per payer was RM 1,057 in 1992 and the highest one was RM 2,386 in 2002. In addition, average payment per payer per year during 1992-2003 was RM 1,732.

Table 3: Average Payment Per Year In the Federal Territory

	1992	1993	1994	1995	1996	1997
Collections	21,241,218	26,883,510	34,419,920	33,681,681	42,921,790	52,850,927
Payers	20,098	23,558	25,921	28,066	28,718	29,057
Average	1,057	1,141	1,328	1,200	1,495	1,819
	1998	**1999**	**2000**	**2001**	**2002**	**2003**
Collections	45,770,559	36,019,248	58,921,958	70,301,331	84,533,227	96,380,801
Payers	23,618	19,169	27,257	34,974	35,427	40,653
Average	1,938	1,879	2,162	2,010	2,386	2,371
Average/year	1,732					

Sources: Annual Report, 1999-2003, Zakah Collection Center, Majelis Agama Islam Wilayah Persekutuan

Table 4 and Table 5 provide data on the percentage of payment to amil (as a proxy of zakah administration costs) to the total zakah collection in Federal Territory and in selected states in Malaysia. Besides considering the percentage of payment to amil to tthe total zakah collection, we also use percentage of payment to Fakir Miskin to Zakah Collection as the first priority among eight asnaf of zakah, as indicated in the Qur'an 'Shadaqah is for the poor and the needy and those employed to administer the funds; for those whose hearts have been reconcile to the Truth, for those in bondage and debt; in the cause of Allah and for the wayfarer. This is ordained by Allah and Allah is the full of knowledge and Wisdom'.

Table 4: Percentage Payment to Amil and Fakir Miskin to Zakah Collection in the Federal Territory (RM Thousands)

Zakah	1992	1993	1994	1995	1996	1997
Collection	21,241.2	26,883.5	34,419.9	33,681.7	42,921.8	52,851.0
Disbursement	17,437.5	29,275.5	21,034.4	33,523.9	48,819.2	50,766.4
Surplus	3,803.7	(2,392.0)	13,385.6	157.8	(5,897.4)	2,084.5
Amil	3,136.9	2,500.9	4,635.0	3,885.7	6,865.0	4,821.4
% Amil to Total Collection	15	9	13	11	16	9

Fakir	292.4	562.4	797.5	1,722.0	1,388.6	2,333.7
Miskin	2,400.1	2,777.7	3,253.2	4,713.2	4,602.7	9,674.0
Fakir+Miskin	2,692.5	3,340.1	4,050.7	6,435.2	5,991.3	12,007.6
% Amil to Fakir+Miskin	117	75	114	60	115	40

Zakah	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**Average**
Collection	45,771.0	36,019.2	58,922.0	70,301.3	84,533.2	96,380.8	50,327.2
Disbursement	30,186.4	20,907.1	46,503.0	71,741.3	63,313.4	86,743.4	43,271.0
Surplus	15,584.2	15,112.1	13,419.0	(1,440.0)	21,219.9	9,637.4	7,056.2
Amil	7,664.5	6,512.1	6,157.2	11.106.5	13,311.4	13,490.5	7,157.3
% Amil to Total Collection	17	18	14	16	16	14	14
Fakir	3,212.5	1,940.4	3,753.2	4,767.2	12,748.9	9,906.3	3,618.8
Miskin	9,018.6	3,521.0	11,749.4	12,793.3	14,437.5	10,591.3	7,460.0
Fakir+Miskin	12,231.1	5,461.4	15,502.6	17,560.5	27,186.4	20,497.6	11,079.8
% Amil to Fakir+Miskin	63	119	53	63	49	65	78

Sources: Annual Report, 1999-2003, Zakah Collection Center, Majelis Agama Islam Wilayah Persekutuan

Table 4 shows the percentage of amil to the total collection is 9 percent and 18 percent and the average percentage is 14 percent. Payment to amil consists of operational expenditure, fee to amil on Zakah Collection Center and fee to amil on zakah al-fitr. For example, in 2002 the amount of payment to amil is RM 13,311,412 consists of fee to amil on Zakah Collection Center RM 5,844,929; fee to amil on zakah al-fitr RM 463,761, and the rest of the money is for operational expenditures. This amount of administrative cost is quite big if we compare to administrative cost on tax collection as indicated in Table 6. The highest percentage of the administrative cost divided by net revenue collection is about 2 percent.

Another important aspect on Table 4 is the percentage amil to fakir miskin. In our opinion, the first priority of the beneficiaries (asnaf) is fakir miskin so that the amount paid to fakir miskin should be higher than amount to amil. In the Federal Territory case, on average the percentage amil to fakir miskin is 78 percent but for 1992, 1996 and 1999 the payment to amil were higher than the payment to fakir miskin with the percentage of 117, 115 and 119 respectively.

Islamic jurisprudence makes no distinction between zakah and shadaqah. The above verse of the Qur'an specifies the uses of shadaqah including zakah. Therefore there is a considerable difference of opinion on the use of zakah among different groups of the beneficiaries in the list of the relevant verse (Mandal, 1998). Some ulama stand for the direct transfer of zakah to the beneficiaries. However, most

writers prefer to operate the process of administration (collection and distribution) of zakah to increase their beneficiaries. Qardawi argues that zakah revenues has to be transferred directly to those whose hearts are to be won over, the rest of the disbursement being made indirectly. Islahi argues that direct transfer of zakah funds have no basic in the Qur'anic law. Nawfill (1981) as ststed by Zafree and Amin (1998) observed two different views regarding the expenditure on these eight beneficiaries (asnaf) of zakah as stated above. One view is that zakah payer has the choice to pay to any of them. Another view is that he should distribute the zakah money among all eight categories. Another debate also emerges concerning the beneficiaries. For example, some writers have a tendency to interpret in the way of Allah too broadly to include all social services.

Table 5: Percentage Payment to Amil and Fakir & Miskin to Zakah Collection (RM Thousands)

	Federal T.	Selangor	Melacca	Terengganu	Johor	Perak
Collection	251,215.4	226,357.2	37,405.7	101,289.1	95,127.7	62,970.5
Disbursement	221,798.1	204,131.0	30,029.5	74,826.1	79,037.5	50,667.5
Surplus	29,417.3	22,226.2	7,376.2	26,463.0	16,090.2	12,302.9
Amil	39,471.2	26,364.7	5,040.6	6,199.0	11,141.1	5,118.3
% Amil to Collection	16	12	13	6	12	8
Fakir	27,422.4	4,456.7	6,709.5	8,148.7		
Miskin	37,822.1	56,881.4	2,367.1	32,714.6		
Fakir+Miskin	65,244.5	61,338.1	9,076.6	40,863.3	18,197.1	22,552.7
% Amil to Fakir+Miskin	60	43	55	15	61	23

	P. Pinang	Kedah	Kelantan	N. Sembilan	Average
Collection	56,802.3	49,322.1	51,601.0	44,770.0	97,686.1
Disbursement	41,221.4	43,722.6	37,673.2	33,825.8	81,693.3
Surplus	15,580.9	5,599.5	13,927.6	10,944.2	15,992.8
Amil	7,249.0	5,350.8	4,065.8	6,126.3	11,612.7
% Amil to Collection	13	11	8	14	11
Fakir	2,470.2	1,302.0			8,418.2
Miskin	9,905.7	20,905.5			26,766.1

Fakir+Miskin	12,375.9	22,207.5	15,303.1	7,469.2	27,462.8
% Amil to Fakir+Miskin	59	24	27	82	45

Sources: Annual Report, 1999-2003, Zakah Collection Center, Majelis Agama Islam Wilayah Persekutuan

There is much debate on the zakah disbursement that causes non-uniformity in zakah disbursement in Malaysia. This issue can be seen in Table 5 which indicates the same data as Table 4 except in this case we are talking about the percentage payment to amil in Federal Territory as well as in the selected states during 2001-2003. The percentage of amil to zakah collection in Federal Territory is higher than those in in the selected states. The lowest payment was in Terengganu with the amount of 6 percent.

Table 6: The Percentage of Administrative Cost to The Net Revenue of The Tax Collection in Selected Countries

Countries	2000	2001	2002
Australia	1.11	1.27	1.19
Austria	0.80	0.71	0.72
Canada	1.07	1.08	1.20
Finland	0.60	0.61	0.67
France	1.40	1.41	1.44
Hungary	1.45	1.23	1.35
Ireland	0.81	0.90	0.95
Japan	1.42	1.54	1.62
Korea	0.80	0.85	0.85
Netherland	1.70	1.74	1.76
New Zealand	1.44	1.21	1.17
Poland	0.95	1.06	1.32
Portugal	1.60	1.61	1.68
Slovak	1.30	1.43	1.46
Sweden	0.43	0.44	0.42
Turkey	1.94	2.12	0.86
UK	1.10	1.11	1.15

USA	0.43	0.46	0.52

Sources: Country Survey responses, Annual Report of Revenue Bodies (World Bank, 2004)

4.3.3.3 Empirical Findings of Zakah Researches in Malaysia

The study on the effectiveness of zakah can be classified into two categories. First, study focusing on the internal/individual factor. Study focusing on the external factor (factor on outside individual). Examples of the study on individual factor are study on individual characteristics (Wahid et. al, 2005) and individual perception (Sanep Ahmad and Hairunnizam, 2004). The study on the external factor consists of the effectiveness of zakah distribution (Wahid et. al, 2004) and the role of zakah institution (Sanep Ahmad et.al, 2005; Zyadi and Mariana (1999), and Nor Ghani et.al, 2001) in Sanep Ahmad et.al, 2005). The detailed explanation on those researches is shown in Table 7 as follows.

No.	Researchers	Objectives	Findings
1.	Zyadi and Mariana (1999)	To find empirical evidence on the influence of corporatization and the collection of zakah	Corporatization causes the number of zakah collected to increase, however it also is due to other factors as well.
2.	Nor Ghani Md Nor, Marina Majid, Jaafar Ahmad and Nahid Ismail (2001)	To find empirical evidence on factors influencing the amount of zakah collection	The increased amount of zakah collection is due to the following factors: • Corporatization • Increased number of zakah payers • Increased individual income
3.	Sanep Ahmad and Hairunnizam Wahid (2004)	To find empirical evidence on the perception of zakah payer to the items subject to zakah in Malaysia except Sabah and Sarawak	Positive perception on the possibility to increase the items subject to zakah. These items can be categorised into four: 1. Income from bonds and stocks 2. Agricultural produce such as Palm Oil 3. Domestic animal such as chicken and duck 4. Precious stones such as jewels
4.	Wahid et. al (2004)	To explain the effect of zakah distribution on the quality of life of the asnaf (fakir and miskin) in Jerantut, Pahang, Taiping, Perak, and Sandakan, Sabah, by examining their satisfaction on the zakah they received.	Significant influence found on the two dimensions of the quality of life; • Education, and • Social involvement
5.	Sanep Ahmad et.al (2005)	To study the relationship between individual satisfaction with formal zakah institution on the amount of zakah payment	• 43 percent of respondents is satisfied with the management of zakah collection center and 57 percent is not satisfied. • The variable of individual satisfaction has significant influence on the amount of zakah payment. • The number of individual paying zakah to the formal institutions ranges between 85-90 percent.
6.	Wahid et.al (2005)	To study the relationship between individual	The age and the amount of income are found to have significant influence to the

		characteristics such as gender, marital status, knowledge of Islam, education, income, occupation to the payment of zakah on income	payment of zakah on income

Table 7: Empirical Research on Zakah in Malaysia

4.3.3.4. Evaluation on the Organizational Structure

One problem concerning institutional structure of Zakah Collection Center is the lack of national zakah organization. It makes wider diversity among states in term of zakah collection and disbursement. There is no transfer of funds among states. State with high surplus cannot distribute the surplus to the deficit state. Another problem concerning the absence of national zakah organization is a company which has activities in more than one state faces troubles in paying zakah.

4.3.3.5. Issues Concerning Zakah on Income

The problem concerning zakah on income is caused by different opinions on whether income is subject to zakah or not. There is no specific fatwa at national level on this matter (MOhs Rais Haji Alias, 2004). According to Sanep and Hairunnizam (2004) there are three different opinions concerning zakah on income. First, there is no obligation for zakah on income. Second, the obligation to pay zakah on income is based on the masalih mursalah (extended public interest) consideration. Third, the obligation is based on the concept of analogy (qiyas) from Qur'an through *Ijtihad*.

4.3.3.6.*Future Prospect*

In this paper we suggest two aspects concerning future prospect to increase the performance of zakah institution in Malaysia. The first one is the establishment of zakah investment center, and second is the possibility of the Zakah Collection Center to have activities outside Malaysia through internet system.

4.3.3.6.1. Zakah Investment Fund

Zakah Investment is an economic activity that directs zakah and its supportive funds toward production in order to increase the return for zakah recipients. Zakah Investment is permissible from Islamic law (Abdul Fattah Mohammad Farah, 2004), which states as follows:

1. Hadith Bukhari on the possibility of using milk of zakah camels by the wayfarers (ibnu sabiil). It is possible to apply such permissibility on other similar case. The return of zakah camel is milk. If zakah is in money then the return is its profit from investing it.
2. Acceptability through qiyas (analogy). The Prophet SAW advised for investing the orphan's wealth to compensate for zakah payments. As an

orphan's wealth can be invested by his custodian, a zakah fund can be invested by the ruler to increase the welfare of its beneficiaries.

3. Acceptability through Masalih Mursalah (extended public interest). It is a rule to achieve the goals of the Islamic Shariah (Maqasid al shariah) in order to reach the falah in the world and in the hereafter.
4. Recent fatwa: The Fiqh Council of the Islamic Conference Organization (FCICO) approved Zakah Investment. In order to invest zakah, the FCICO imposes two conditions. First, Zakah Investment can only take place after satisfying the immediate needs of zakah beneficiaries and then to invest the surplus. Second factor as a prerequisite of the permissibility to invest zakah is securing the invested funds from any losses.

4.3.3.6.2. International Activities

There is zakah institutions which conduct their activities through virtual office, i.e. Zakah Foundation of America. That system makes the institution to reach out around the world. The Zakah Foundation of America is an international charity with a mission to bridge the gap between the financially privilege (the donors) and those in financial needs (the beneficiaries). This institution is dedicated to alleviate the immediate needs of the poorest of communities by providing food aid, shelter, and health care by delivering relief in emergencies. Zakah Foundation also provides self-help programs through education and training in order to equip people with skills to help themselves.

Zakah Collection Center in Malaysia has received International Quality Recognition, by achieving MS ISO 9002 on January 25, 2002 and latest version of ISO 9001: 2000 in May 2003. These achievements make it possible for Zakah Collection Center to diversify and extend their activities to other countries.

5. Centralised vs Decentralised Issue

Management of zakah in Pakistan, Indonesia and Malaysia shows different characteristic in term of the approach they used. Pakistan tends to use centralised approach as shown by the existence of Central Zakah Council and she has a five-tier zakah organization. The highest one is Central Zakah Council, followed by Provincial Zakah Council (one in each province), District Zakah (one in each district), Tehsil Zakah (one in each Tehsil, i.e. a subdivision of district) and Local Zakah Committee (one for each village in the rural areas and one for each Mohallah, i.e. a small residential area in the urban areas. The existence of CZC reflects the centralised character of zakah management, especially with respect to policy making.

Meanwhile in Indonesia zakah management tends to follow decentralised approach, as indicated by many zakah agencies, initiated/sponsored by government and community. As indicated in the collection and distribution of zakah, infaq shadaqah and waqf, the community-sponsored zakah agencies (LAZ) seem to outperform the government-sponsored zakah agencies (BAZ). It might imply that zakah payers tend to prefer LAZ to BAZ due to some reasons, trustworthiness among others. BAZ as it is sponsored by government is being shadowed by corruptive

practices under government administration. It hinders its effectiveness in collecting zakah funds. The high number of LAZ in Indonesia with similar area of coverage/operation might create a problem of overlapping, especially on distributing the zakah funds in the absence of a well coordination. In addition it might create a stiff and unhealthy competition among zakah collection centres. However this strong competition can be a positive thing for zakah agencies to compete each other positively, i.e. the creativity to organised fundraising to push the collection and to innovate more interesting way in distributing the funds to enhance further trustworthiness so that zakah payer will come to them.

On the other side Malaysia's experience provides interesting learning in term of zakah management by centralising it at the state level, due to the authoritative power of each Sultan on the religious matter, including zakah. This approach is very positive to make zakah collection effective and efficient. However due to state sponsored institution, this approach might also create problem of ineffectiveness in the distribution. Sometimes the zakah institutions fail to reach those needy people due to lack of information or worse due to absence of creative distribution management. Single entity of zakah in each state causes no competition at all. It might imply serious problem in managing zakah funds. Another potential problem is on how to deal with cross-state collection and distribution. Centralising zakah institution at state level might also be viewed as decentralising at federal level. This unique features of Malaysian experience might be redesigned to accomplished more effective and efficient zakat management to deal with the poor and the needy people and also other groups of people eligibly deserving zakah recipients.

Based on this discussion, it seems instructive to think of a more centralising zakah institutions in Moslem countries. Some strategic factors can be the reasons. To have the effective impact of zakah in dealing with poverty alleviation, zakah should be managed in a way that it can play or support the fiscal policy at national level. To this end it must have a good coordination between zakah institution and national fiscal policy maker, especially with respect to zakah distribution to the poor and the needy people. Similar coordination is also needed in enhancing the collection of zakah funds as the information of tax payers is very well documented under tax office. It might help the zakah institution to identify the potential zakah collection more effectively. Reducing the poverty level is also strategic to push away the social ill such as lowering rates of crime. The welfare of the poor and the needy will be enhanced by increasing their marginal propensity to consume through zakah instrument.

6. Conclusions

From the development perspective of zakah collection, the establishment of Zakah Collection makes a significant increase on the amount of zakah collection. This institution has been approved to get international quality recognition through ISO. In the case of efficiency of zakah administration, the percentage of zakah administration to total collection is quite high compare to the percentage of administrative cost to total tax collection conducted in selected countries.

The important aspect of good management implies the achievement of maximum benefits with the minimum cost of administration. To reduce administrative cost, some possible alternatives can be considered. For example, instead of recruiting highly educated persons from outside, the qualified persons living in the areas from where zakah has been collected should be employed. This helps to avoid unnecessary cost involved in arranging the transport and residential facilities. The second option is to employ part-time workers or to get some part-time volunteers as being practiced in Pakistan.

To achieve the strategic impact of zakah, centralizing zakah management seems to be the only policy option. By having it centralised, coordination between national zakah institution and the fiscal policy maker might be implemented more easily. The zakah concept can also be incorporated into fiscal policy formulated by government. Finally, by having a good and effective management of zakah it is expected that the conversion of zakah recipients into zakah payers can take place to indicate that the welfare improvement of the under-privileged segment is guaranteed.

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