



# GOVERNANCE ISSUES IN MANAGING ZAKAT FUNDS

## The Experience of Selected Zakat Management Institutions in Malaysia

### INTRODUCTION

Technically, zakat means 'that which purifies' and is one of the five pillars of Islam that purifies Muslims' income in a year by donating a fixed portion of it to help the poor and needy. The zakat recipients also purify their hearts from envy, jealousy and anger towards the wealth of the rich. As the third pillar of Islam that addresses the economic inequality gap in a Muslim society, its importance is indicated by the fact that it is mentioned at least 58 times in the Quran, and the potential zakat recipients 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. Therefore, 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 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. Furthermore, a well-managed zakat institution with proper governance will instil public confidence and trust in these institutions and serve the objectives of zakat as ordained by Allah in the Quran.



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## The Department of Islamic Development Malaysia (JAKIM), 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 SIRCs in managing these centres and the distribution of the funds.

Documented evidence suggests room for improvement in the governance aspects of managing zakat institutions in different states. Ahmad *et al.* (2006) examined public satisfaction towards zakat institutions based on a sample of selected respondents who suggested dissatisfaction with the current practices of collecting and distributing zakat funds. Mustafa *et al.* (2013) pointed out that the lack of transparency and proper zakat management has created a lack of public trust. Consequently, most members of the public opt to pay their zakat directly to the targeted beneficiary. This is unhealthy as it will lead to issues in correctly identifying the deserving recipients or even double payment if the recipient is already receiving funds periodically from a formal zakat institution.

Abd. Majid (2007) explains the lack of standard practice for zakat collection and distribution in each state as each state is responsible for matters pertaining to Islam, as gazetted in the Islamic enactments of the respective state. The ruler in each state has absolute authority over the management and administration of zakat. Due to different enactments of the states, the organisational structure and administration of zakat in Malaysia differ from one state to another. Consequently, there are no standard requirements to manage the zakat funds efficiently and effectively (Alias, 2008; Wahab & Rahim,

2011) and no mechanism to ensure good governance practice.

From the administrative perspective, three different organisational structures of zakat institutions exist. The first is the traditional model, where the collection and distribution of zakat funds are administered by State Islamic Religious Councils (SIRCs). The second is a combined model where zakat centres manage zakat collection while the SIRCs manage the distribution of the funds to deserving recipients (*asnaf*). The third is the contemporary model, where the zakat centre manages the collection and distribution of the zakat fund.

In an effort to improve the efficiency in the collection and distribution of zakat funds, several of the State Islamic Religious Councils (SIRCs) have set up zakat collection centres. The Department of Islamic Development Malaysia (JAKIM), 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 SIRCs in managing these centres and the distribution of the funds. JAKIM is also responsible for regulating and standardising the laws and regulations pertaining to zakat and other Islamic matters. In 2004, the Department of Awqaf, Zakat and Hajj (JAWHAR) was established with the objective of strengthening institutions which are responsible for the administration of waqf, zakat, *mal* and *hajj*.

to enhance the efficiency and effectiveness of the service delivery system and to attain the expected level of excellence, glory and eminence (Alias, 2008). However, JAWHAR has no executive power over any zakat institutions in this country despite its mission to coordinate and strengthen the agencies governing waqf, zakat, *mal* and *hajj*.

Governance issues in managing zakat funds is a global phenomenon. For example, Australia's National Zakat Foundation (NZF) allegedly used zakat funds to support counter-extremism or Israel lobby-related activities. At the same time, zakat institutions in the United Kingdom are also exposed to public scrutiny by non-Muslims due to Islamophobia. The mismanagement of the zakat institutions has tarnished the reputation of zakat institutions. As far back as 2008, the Malaysian National News Agency (BERNAMA) reported cases of misappropriation of zakat funds in Selangor. In 2011, a zakat collector (*amil*) in Johor was found to have misappropriated zakat collections totalling RM18,000. Despite public outcry, in November 2015, the National Oversight and Whistleblowers Centre (NOW) exposed an alleged misappropriation of zakat funds totalling RM223,000 managed by Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM) (Berita Harian, 2016). These cases have severely eroded 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 funds managed by Majlis Agama Islam Wilayah Persekutuan (MAIWP) to pay for his legal costs amounting to RM63,650. The Auditor General's report confirmed the Minister's misappropriation of the zakat funds but recorded that he later refunded the money before the closing of the accounts in 2010. The most recent case of criminal breach of trust implicated 15 personnel, including the Chief Executive Officer and six senior Zakat Pulau Pinang (ZPP) officers, who were arrested and charged with several counts of graft and bribery in May 2017 (Berita Harian, 2017).

Despite the shortcomings mentioned above on zakat collection and distribution issues, the total amount of zakat collected annually is increasing due to rising awareness of zakat obligation among young Muslims facilitated by zakat payment apps that make it easy to pay zakat. Recent statistics indicate that those eligible to pay zakat constitute those between 25–54 years of age group and constitute 41 per cent of the total population. Furthermore, applying financial technology (fintech) such as auto debit, internet banking, ATM, and phone banking has increased effectiveness and efficiency in collecting zakat funds annually. Besides the technology, the direct zakat collection

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through zakat centres around the country and the privatisation of zakat institutions have helped increase the efficiency of zakat management (Wahid *et al.*, 2009).

This article briefly examines zakat institutions' governance-related issues and suggests solutions to improve performance further.

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 are based on the insights obtained from the interviews.

## FINDINGS

The thematic discussion of the findings is based on the following aspects:

**01**

**Corporate structure and system of control**

**02**

**Payment scheme for *amil* (or the zakat collector)**

**03**

**Reporting line of communication for effective management**

Effective governance practices are reflected by how the zakat institution is structured to manage the funds. In general, zakat institution has to collect funds from those eligible to pay zakat and efficiently distribute them to the identified recipients of zakat funds. Under the current format, the collection and distribution functions are done by separate entities 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 the segregation of collection and distribution functions does minimise the 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 the collection. However, the interviewees did highlight instances in which the appointed *amil* performs zakat collection not only in the designated jurisdictions but illegally cross border to collect from payers in other states with many businesses and high net worth potential zakat payers. This is possible when the *amil* receives consent from the Islamic leader of the respective cross-border jurisdiction for zakat collection. To make matters worse, some states encourage this cross-border zakat collection practice to the general public. The *amil* does not issue a receipt for the payment, making it difficult for zakat payers to claim a 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 such as consultancy and development are most likely the areas subject to manipulation. The zakat officers may appoint vendors or contractors to supply goods or services for the zakat institution's activities. As a token of appreciation for appointing them, these vendors and contractors do personal

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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 the 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 fully eradicated with zero-tolerance for corruption benchmarking.

An interviewee also highlighted the fact that there are efforts to curb unethical behaviour and lack of integrity among zakat officers, such as through the ISO 37001 Anti-Bribery Management Systems (ABMS) certification offered by SIRIM, asset declaration and signing a Letter of Undertaking as recommended by the Malaysian Anti-Corruption Commission. However, these procedural compliances do not guarantee that there will be no cases of professional or corporate misconduct. Integrity and ethics are values imbibed from home by the family, and the officers cannot be expected to change their behaviour by asking them to comply with a code of corporate governance or best practices and/or by 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 the central government. Unlike the 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 rulers like Pulau Pinang, the Federal Territories of Kuala Lumpur and Labuan, and Melaka. Even though the idea is noble and the intention is clear, the state authorities may not be open to this idea and may fall short of expectations in practice.

## CONCLUSION

The management of zakat funds by zakat institutions has drawn public attention due to large amounts of zakat funds (exceeding a billion 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 governance issues in zakat institutions based on face-to-face interviews and telephone conversations with senior officers of selected zakat management centres with huge volumes 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 Prime Minister's Department (Religious Affairs) in Malaysia to consider developing a standard governance framework for zakat institutions with a mandatory obligation to comply with the standard practice to ensure 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, employees in a zakat institution, zakat payer and recipient, and the community as a whole.

The Prime Minister's Department (Religious Affairs) should consider benchmarking the zakat governance framework on the Malaysian Code on Corporate Governance (MCCG) issued by the Securities Commission Malaysia. The MCCG was first introduced in 2000, and it has gone through several revisions in 2007, 2012, 2017 and 2021 and can be used as a guide to developing a comprehensive

zakat governance framework. Therefore, it is proposed that the Prime Minister's Department (Religious Affairs) should be mandated to formulate a comprehensive Islamic governance framework to govern affairs of institutions related management of zakat, waqf and *infaq* systematically and uniformly. A comprehensive code of Islamic governance could be effectively developed through consultations with various stakeholders. The structured and comprehensive approach will establish a high standard of Islamic governance for best practices and ensure that zakat institutions adopt the code of Islamic governance in their management through their internal codes and procedures.



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