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## A Robust *Zakah* System: Towards a Progressive Socio-Economic Development in Malaysia

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**Abstract:** As one of the fundamental tenets in Islam and central to Islamic economy, *zakah*, theoretically, has a wide and profound impact on socio-economic development of a nation. This paper attempts to examine the current *zakah* system in Malaysia particularly its contributions towards poverty alleviation as well as drawbacks that are limiting its overall impact on the country's development. A comparison is made on *zakah* collection and distribution between two states in Malaysia each at two different extreme of the poverty line. This paper further introduces a model of *zakah* system as a way forward towards a more holistic and wide-reaching implementation of *zakah* in Malaysia.

**Key words:** *Zakah* • Alms • Islamic economy • Poverty alleviation • Socio-economic

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### INTRODUCTION

There has been no system in the world other than Islam that clearly and steadfastly states the right of the poor in such a way that duties of taking care of them - through *zakah* - fall on both government and individuals. Despite its significant element in Islam and various models of collection and distribution being applied, hardly has any Muslim country shown commendable movement and outcomes out of *zakah* system in this decade. As in the case of Malaysia, this is affirmed by the Malaysia Deputy Financial Minister's statement at the National Conference of *Zakah* and Tax 2010, that *zakah* system seems to take a back seat in the nation's development compared to the tax system [1]. This proclamation came about ten years since an announcement was made by Minister in the Prime Minister's Office that Malaysia was drafting a law, which would make the payment of various types of *zakah* compulsory for all Muslims in the country [2].

Obviously, from the two statements made at two distant points of time, it is noteworthy that there has yet any evident of a large scale and effective *zakah* system being implemented in Malaysia. This paper

attempts to examine the current practice of Malaysian *zakah* system in terms of its contributions and drawbacks in the issue of poverty alleviation and socio-economic development of the nation. A model for a more holistic and comprehensive *zakah* system is also being introduced.

**Zakah in Islam:** *Zakah* is one of the five pillars in Islam with the word *zakah* itself is mentioned over 30 times in the Quran. The position of *zakah*, its ends and means are extensively stated in the holy book to the extent that there is little room for human manipulation and intervention in its rules [3]. Nevertheless, the boundaries for all eight categories of *zakah* beneficiaries are continuously being examined by *Shariah* scholars to best engage with modern-day situations [4]. Some scholars, for example, have expanded the scope of *Fisabilillah* group (those in the way of Allah) to include defence expenditures while *Ibnus Sabil* (travellers) covers spending on facilities required by them such as roads and bridges [5]. Among all groups of beneficiaries, Islamic scholars are indifference over the rights of the poor and needy as being the first and significant priority to receive *zakah* proceeds.

**Zakah as a Tool for Poverty Alleviation:** Zakah can help eradicate poverty and improve the living standard of the poor and needy. This is especially true if it is managed efficiently and channelled for productive and sustainable means [6,7]. Some contemporary Islamic economists suggest that *zakah* be used as a source for income generator to make the poor become more economically independent [8]. A model suggested by Kabir [9] integrates *zakah*, *awqaf* and Islamic microfinance as tools for poverty eradication.

Most studies on redistributive strategy even regard *zakah* as the strongest basis for poverty and inequality reduction [10,11]. Yet, the problem with underdevelopment and poverty related issues are more obvious in most Muslim countries [11]. Islamic economists believe that this is largely due to the weak implementation of *zakah* in these countries thus restraining the success of the noble aims of *zakah* [12].

**Other Potential Socio-economic Impact of Zakah:** An effective *zakah* fund management can help towards the relief of government's budgetary revenues in meeting other objectives, increase taxation collections through enhanced productivity, employment and output while proper timing of its collection and distributions can act as a tool to influence economic activity in a society [13]. Study on Bangladesh, for example, Hassan and Khan [14] found that *zakah* fund can replace government budgetary by 21 percent of Annual Development Plan in 1983/1984 and 43 percent in 2004/2005. Besides, *zakah* can be used as a tool to achieve full stability in Islamic economy [3]. Anwar [15] further suggest an establishment of an investment arm to facilitate the growth of *zakah* and *awqaf* fund for long term socio-economic development of beneficiaries.

Unlike tax levied on income or consumption expenditure, *zakah* is built on a different and wider base covering productive wealth and idle assets, spending on which may lead to increase consumption propensity (Metwally as cited in Zaim as cited in Bakar and Rahman [12]. Goods or assets that are subject to *zakah* include all items signifying wealth of an individual [16]. According to Al Qardawi (1973) as cited by Ahmed [16], salaries and income that reaches *nisab* after deductions of personal expenses are *Zakatable*. This notion is widely referred to by many Muslim countries including Malaysia when *zakah* collection is concerned. A study by Susanto [17] proved that *zakah* deducted from taxable income could foster aggregate consumption, reduce savings and differ investment component which lead to broader national income.

**Zakah System in Malaysia:** *Zakah* institutions in Malaysia are controlled by Islamic Council in all thirteen states and one Federal Territory. Each Islamic council reports directly to the Sultan or Ruler of the state since religious affairs are under the respective states' jurisdiction [4]. The National Council for Islamic Affairs under Federal Government, on the other hand, acts as an intermediary between the Federal Government and various State Islamic Councils and concerns matters that only affect the whole nation. Apparently, there is minimal interference by the Federal Government in *zakah* institutions which limits the coordination between them even on matters that concern both i.e. poverty.

While *zakah* payment is made on voluntarily basis to any *zakah* institutions throughout the nation, the distribution of *zakah* is confined to the beneficiaries at the respective state where *zakah* is collected. The following description is a comparison made between two states in Malaysia i.e. Selangor (with the lowest incidence of poverty) and Sabah (with the highest incidence of poverty), with regards to *zakah* collection and distribution.

Total *zakah* collection for Selangor in 2009 was RM283.6 million (the highest among all states), out of which 13.5% (RM38.4 million) was channelled to the poor Muslims and 25% (RM 70.5 million) to the needy Muslims in the state [18]. Muslims constitute 52% (2.8 million) of total Selangor population [19]. The state's poverty and hardcore poverty rate were recorded at 0.7 percent [20] and 0.1 percent [21] respectively in 2009- one of the lowest among all states.

Likewise, in Sabah where 63.7% (1.9 million) of its population were Muslims (year 2000 statistical data), only RM25.4million *zakah* was collected out of which, a total of RM12.1 million (47.6%) was channelled to the poor and needy Muslims in the state. Poverty and hardcore poverty rates were recorded at 19.2 percent and 4.7 percent respectively in 2009 -the highest among all states [20,21].

Apparently, it has never happened under normal circumstances that *zakah* in Selangor being channelled to Sabah. As a result, the allocation of *zakah* for the poor or other beneficiaries varies considerably from one state to another. This is evident when the states with high collections of *zakah* appear to have low incidence of poverty and vice versa. Therefore, should *zakah* distribution remain restricted at individual state, it will be impossible to achieve an efficient and fair allocation of *zakah* among the beneficiaries across the nation.

### **Continuous Call for More Effective Zakah System in Malaysia:**

According to Bakar and Rashid [22], non-existence of established laws and lack of enforcement by *zakah* institutions expel some uncertainties over their credibility and effectiveness in handling *zakah* collections. Unlike tax on income which is compulsory, *zakah* on income is done on voluntary basis. Although tax rebate is given on *zakah* and *fatwas* being issued on the obligation to pay *zakah* on income [23], the total of *zakah* collections remain small compared to the size of the Muslims who constitute 61% of the population [24]. For example, *zakah* collection in year 2009 was RM 1.2 billion compared to RM 112.93 billion total tax collection and RM162 billion total government revenue. Even Selangor with the highest collection of *zakah* only managed to get 167,990 people to pay *zakah* on income totalling RM190 million in 2010 [18].

The small collection of *zakah* relative to tax signifies the fact that it will be difficult for *zakah* system to have significant impact on Muslim community especially when almost all development is funded by the government [4]. This very fact makes *zakah* institutions less prominent among Muslims and continuously become the subject of criticisms. A study by Wahid, Kader and Ahmad [25] found that almost half of respondents who were not satisfied with *zakah* institutions chose not to pay *zakah*. Their dissatisfaction was largely due to inefficiency and lack of transparency in *zakah* distribution. In fact, privatisation of the institutions has not improved the respondents' satisfaction level [26].

There are several suggestions made on ways to improve the *zakah* system. Wahid and Kader [26] recommended the concept of localization or decentralization by *zakah* institutions to expedite the collection and distribution process to local people. Iqba [27], on the other hand, favoured centralized *zakah* collection whereby management rights were given to the states to enhance microeconomic foundations of Islam.

### **Government Initiatives Towards Poverty Alleviation:**

Government efforts to transform Malaysia into a developed nation and to reach zero-poverty target by 2020 include several initiatives targeted for the poor and needy. In the year 2009, the nation's poverty and hardcore poverty rates were recorded at 3.8 and 0.7 while those of Bumiputra were 5.3 and 1.1 respectively [21,22]. There are at least six ministries to undertake programmes tailored for poor and needy with Ministry of Rural and Regional Development and Ministry of Women, Family and Community Development heading the list.

Under government Budget 2011, a sum of RM568 million is allocated to build houses for the poor, RM1.2 billion to carry out various welfare and community programmes including construction of an intervention centre for the homeless, housing facilities and counselling and RM6.9 billion to implement basic infrastructure at rural areas such as water, electricity supply and roads [28]. All sources of funds are derived from the government revenues not inclusive of *zakah* collections.

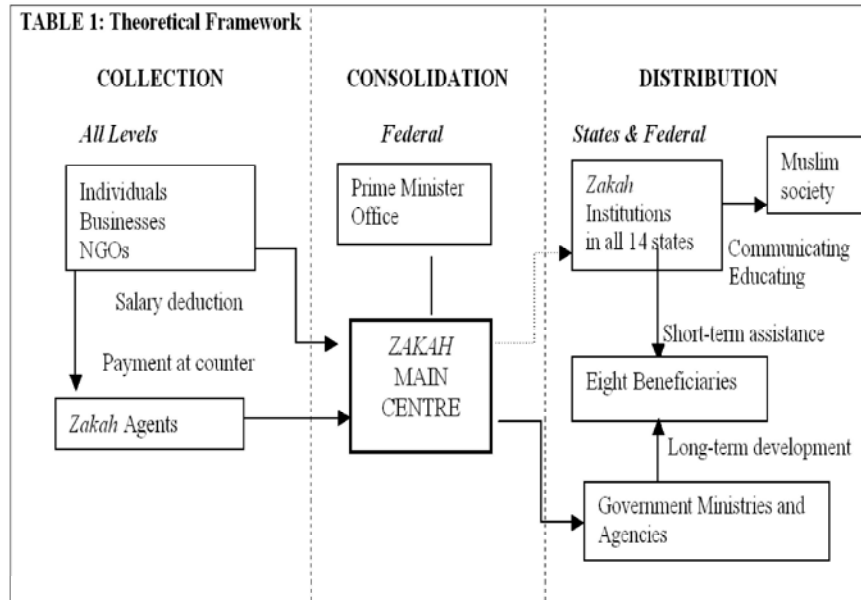
**A Proposed Robust Zakah System:** A holistic approach is required to strengthen the presence of *zakah* system in the nation's socio-economic development. Systematic collaborations between *zakah* institutions and governments at both state and federal levels shall bring about a more robust *zakah* system that will give substantial benefits to the society and nation as a whole. Several reformations are required in order to achieve this objective.

First, similar to tax deduction on salary, there is a need to pass a law to make *zakah* deductions compulsory on income of all *zakatable* Muslims. The system then, will be able to generate approximately up to RM4.9 billion *zakah* on income alone calculated by multiplying the estimated average *zakah* of RM1,092 per person per year [29] with 4.56 million *zakatable* Muslims. (4.56 million is derived by taking into account only 11.8mill (68.1%) of 17.4 million *Bumiputra* is between age 15-64, out of which only 7.6mill (64.5%) participate in the labour force [30] and only 60% highest income earners are *zakatable* [31]. All percentage values are based on national statistical data). RM4.9 billion *zakah* on income alone is sufficient to bring about major poverty alleviation or finance a large scale and comprehensive community development project.

Second, a wider coverage of *zakah* agents is needed to facilitate all types of *zakah* payment over the counter. This is by employing existing bodies with established infrastructure and networks e.g. Islamic banks, to undertake *zakah* collection tasks.

Third is setting up a *Zakah* Main Centre that acts as a nucleus for the whole *zakah* system. Its functions include drawing policy, determining *zakah* proportion for each beneficiary group in each state, consolidating *zakah* collection, undertaking research and development, supervising *zakah* institutions to meet short-term needs of beneficiaries and coordinating with government ministries for long-term development program.

Fourth is strengthening *zakah* institutions to act as catalyst for the system. Besides being advisor to the Local Islamic Council and *Zakah* Main Centre, *zakah* institutions' main focus would be communicating and



educating public about *zakah* and distributing *zakah* to all beneficiary groups to meet their short-term needs. Last is forming a strategic alliance between *Zakah* Main Centre and ministries or government agencies to undertake long-term development programs of the beneficiaries.

Table 1 illustrates the proposed *zakah* system. Noteworthy, all efforts at each stage must strongly adhere and uphold the values in Islam. i.e transparency, accountability and integrity.

### CONCLUSION

In Islam, *zakah* plays an important role in poverty alleviation and socio-economic development. Malaysia is one of the most progressive Muslim countries that have potential to benefit further from a robust *zakah* system in the near future. Similar to Islamic Banking thriving experience in the face of stiff competition with conventional banking [32], *zakah* system in Malaysia shall progress alongside tax system. Besides, a more thorough approach in providing satisfaction to customers (*zakah* contributors) can enhance loyalty and ensure long-term success of the organization [33].

Several reformations are required as proposed in this paper. Among others are to establish a *Zakah* Main Centre, to promote fair distributions of *zakah* among all states by centralizing *zakah* funds, to integrate *zakah* in yearly government budget for long-term socio-economic development and to allot the tasks of *zakah* institutions and government ministries accordingly and effectively.

Future research and studies shall focus on examining the application of the proposed framework in day-to-day

context and finding solutions to any obstacles that could prevent its implementation. Another area of future research is to expand the scope of *zakah* system to include all Muslim countries collectively working towards poverty alleviation through centralized *zakah* funds. In the end, *zakah* system will never fail if it is implemented in the spirit of Islam for the benefits of all mankind.

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