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Towards International Standardization of Zakat System¹

Irfan Syauqi Beik²

Abstract

This paper attempts to elaborate the importance of standardization of zakat system at global level. It is extremely important in order to optimize global zakat potential that reaches 1.8% to 4.34% from GDP of the OIC member countries according to Kahf. Four basic issues of standardization have been deeply discussed in the paper. Document of zakat core principles has also been elaborated in order to provide better comprehension on the aspects that need to be standardized. Finally, this paper identifies four important stages as the way forward.

Keywords: *international standard, zakat regulatory framework, zakat governance*

JEL Classification: O150, R290, Z120, Z190

¹ This paper is presented at the Fiqh Zakat International Conference 2015, which is held in Kuala Lumpur, Malaysia, organized by the World Zakat Forum, Pusat Pungutan Zakat (Zakat Collection Center) Malaysia, and JAWHAR on November 25-27, 2015.

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1. Introduction

As one of the most important pillars of Islam, zakat has potential to be developed economically and socially. According to Kahf, total potential of zakat in the OIC member countries ranges from 1.8 percent to 4.34 percent of their GDP (Firdaus *et al*, 2012). Under the assumption of constant value of the potential, its multiplication with actual GDP of the OIC member countries in the year 2010 will yield an amount of USD 600 billion as the annual global zakat potential. This considerable figure may increase over time following economic growth of the OIC member countries.

Nevertheless, level of zakat management among Islamic countries is different. Some countries are in the advance stage of zakat development while some other countries are still in the early stage of development or even pay no attention. This affects the ability of a country to collect and distribute zakat fund, and sharpens the gap between zakat potential and its actual collection. In extreme cases, this gap may reach more than 90 percent meaning that the actual collection is still less than 10 percent from its potential.

This condition provides the fact that the role of zakat as development instrument is still not optimum. Zakat, which has been explicitly mentioned in the Quran as opposition to *riba*, is still considered in many Islamic countries as traditional system that does not require systematic approach in its development process, which departs from solid legal foundation and good governance in its management system. Unavailability of zakat act determining the legal foundation of zakat operation in most of the Islamic countries strengthens this perception.

As has been depicted in the Table 1, there are only 11 OIC member countries that already have zakat regulation in various forms and levels including their controlling forum and arrangement of collection and distribution. Indonesia for example, has enacted Zakat Management Act No 23/2011 as the basis for operation of zakat institution. The National Board of Zakat (BAZNAS) has been given a mandate to manage entire zakat system and to coordinate all zakat institutions in the country.

Malaysia on the other hand, has its own approach in this regard. Each state in this country is given authority to produce their own zakat law under the supervision of the Islamic Religious Council of the state. This council is given the mandate to handle all zakat affairs including collection, distribution and management of zakat. However, the council can delegate this duty to the institution that is set up specifically for the purpose of managing zakat. For example, in the Federal Territory of Kuala Lumpur, the Council has given mandate to Zakat Collection Center (*Pusat Pungutan Zakat* Kuala Lumpur) for collecting zakat and to *Baytul Maal* for distributing zakat. Different format is applied in Selangor state, in which Lembaga Zakat Selangor (LZS) is given mandate by the Selangor Islamic Religious Council to collect and distribute zakat.

Table 1. Zakat Law Enactment in the OIC Countries

No	Country	Zakat Law Promulgation	Controlling Forum	Collection Arrangements	Disbursement Arrangement
1	Indonesia	<ul style="list-style-type: none"> • Zakat Management Act No. 23 Year 2011 • Government Regulation No. 14 Year 2014 	The National Board of Zakat (BAZNAS)	Zakat is collected through a coordination of the BAZNAS central, BAZNAS province, BAZNAS regency/city and private zakat institution (LAZ).	Zakat is distributed based on priority after considering principles of equity, justice, and territorial proximity. Zakat can be utilized for productive activities in order to improve the quality of life.
2	Malaysia	Federal Law of 1986 Each state has its own zakat law	The State Islamic Religious Councils (SIRCs)	Zakat collected under authority of local gov for 13 Malaysian states and 1 fed gov.	All the eight ashnaf; payment in cash or kind; in goods or equities.
3	Saudi Arabia	<ul style="list-style-type: none"> • Royal Dec No. 17/2/28/8634 of 1951 • Ministerial Decision No. 393 • Ministerial Decision No. 394 	The Zakat and Income Tax Department of the Ministry of Finance and National Economy	Individuals and companies obliged to pay half of their zakat liability based on their assets.	All zakat proceeds spent only for poor and needy n transferred to Social Insurance Dept, except for zakat disbursement of crops and fruits through local committees.
4	Sudan	The Zakat and Tax Law of the Sudan, 1984. It consists of 6 chapters and 46 articles.	Zakat Bureau of the Ministry of Guidance and Direction	Payment of zakat is compulsory for every Sudanese Muslim and non-Sudanese Muslim residing or working in Sudan. For non-Muslim, social solidarity tax is obliged to pay.	The law provides that zakat disbursement is within the same province, unless it is decided by President of the Republic to transfer from one province to another.
5	Kuwait	<ul style="list-style-type: none"> • Zakat Law (16 January 1982) consists of five articles • Law No 46/2006 	<ul style="list-style-type: none"> • The Zakat House of Kuwait under chairmanship of Minister of Awqaf and Islamic Affairs • Zakat and contribution of public and closed shareholding companies in the state budget 	Voluntary contribution by wealthy people of Kuwait. Corporation must pay 1% from the net profit for state budget and they must pay their zakat as well	All the eight categories referring on At-Tawbah: 60.
6	Jordan	Zakat Act No. 35 (1944) has fourteen articles	Boards of Directors of Zakat Fund	Zakat collected by law in cash, livestock, lands, commodities and imported assets.	Disbursement confined to the poor, the needy and the manager (not exceed 10%)
7	Pakistan	Article 31 of the Constitution	Central Zakat Council headed by a Judge of the Supreme Court	Regulations provide mandate to collect zakat on invisible wealth which are bank accounts and financial papers with exception of accounts in foreign currencies.	The zakat disbursement is made directly or indirectly through schools, educational, vocational and health institutions.
8	Libya	The Executive Regulations of the Libyan Zakat Law (28 October 1971)	Social Security General Secretariat	Zakat collection is compulsory on silver, gold, pasturing animals and agricultural produce only.	The zakat proceeds are disbursed by the General Organization for Social Insurance and the Islamic Da'wah Society.
9	Bangladesh	The Zakat	Zakat institution	Payment of the zakat is	50% of zakat proceeds

		Ordinance of 1982	consists of the Central Council and the Council of the Districts	voluntary	disbursed through local zakat committees, while remaining disbursed through Central Council.
10	Bahrain	Statute No. 8 for 1979	Zakat Fund Board of Directors headed by a Gov Minister	Payment of the zakat is voluntary	Muzakki has the right to indicate his preference of beneficiaries
11	Brunei Darussalam	The Revised Edition 1/1984 of the Islamic Religious Council Act and Kadi Courts Act (Chapter 77)	Brunei Islamic Religious Council	Obligatory zakat payment	Disbursement is solely the authority of Brunei Islamic Religious Council. There are only 6 asnaf in Brunei. Mufti Fatwa No 14 MKB 3/1969 excludes the slave and fi sabilillah (struggle in the way of Allah). The two are considered non exist today.

Source: Document of Zakat Core Principles (2015)

Different institutional format of zakat management also takes place in the case of Saudi Arabia. In the collection side, the Department of Zakat and Income Tax of the Ministry of Finance has been given a sole power to collect zakat. As for distribution side, it is Social Welfare Ministry that is responsible to distribute zakat according to the prevailing law and shariah guidance. In general, diversity in zakat management system is an undeniable fact taking place in the Islamic world.

As the results of these differences, level and scale of zakat system vary across the Islamic countries. Therefore, one way to increase the optimization of zakat instrument is through standardization of zakat operation and system at global level, in which the core principles for sound zakat management system are derived from best practices in certain countries, and replicated in other countries so that the gap in the quality of zakat management across the Islamic world can be minimized.

2. Basic Issues of Standardization of Zakat System

It has never been an easy task to standardize zakat system at global level. It has to be started with identification of basic issues that will determine the outcome and the process of this standardization. There are at least four issues that must be strictly observed.

The first issue is regulatory framework. As has been highlighted in the previous section, the issue of regulation is extremely important. In terms of this regulatory framework, Beik (2012) has constructed various models of zakat regulation which exist in the Islamic world (vide Figure 1). These models are comprehensive model (Type 1), partial model (Type 2), secular model (Type 3) and impossible model (Type 4).

Figure 1. Models of Zakat Regulation

	Obligatory Zakat System	Voluntary Zakat System
Regulation	Type I: Comprehensive model	Type II: Partial model
No regulation	Type IV: Impossible model	Type III: Secular model

Source: Beik (2012)

In the Type 1 of Zakat Regulation, there exists Zakat Act, and zakat payment has been made obligatory by the state system. Failure to fulfil zakat obligation will lead to legal penalty and sanction, either administrative sanction or criminal sanction. In other words, this Type 1 implements zakat as *wajib shar'i*³ and *wajib siyasi*⁴. These two terms were made by the Central Board of *Nahdatul Ulama* (NU), which is the largest Islamic organization in Indonesia.

There are several characteristics of Type 1 of Zakat Regulation (Beik, 2012). Firstly, there exists Zakat Act. Secondly, there exists standardization on collection, distribution, reporting system, and management aspect of zakat. Thirdly, availability of standard regulation on sources of zakatable items, which cover all shariah compliance economic sectors. Fourthly, the presence of integrated and efficient structure of zakat institutions. Fifthly, integration of zakat into fiscal policy and national taxation and economic system. Sixthly, the existence of good amil governance, which may be different from good corporate governance⁵.

Furthermore, in the Type 2 of Zakat Regulation or partial model, zakat is not made as *wajib siyasi* although Zakat Act exists. However, the existence of Zakat Act does not implement zakat as mandatory from legal perspective, but more on regulating management aspect of zakat. Indonesia is an example of this partial model. The presence of Zakat Management Act No 23/2011 regulates only management aspect of zakat. The Act focuses more on National Board of Zakat but does not make zakat payment as mandatory from legal perspective. Hence, given this condition, zakat collection is dominated by the people

³ *Wajib shar'i* means that zakat is a religious obligation. Therefore, all muslims must obey this obligation irrespective of the presence or the absence of zakat act in the country.

⁴ *Wajib siyasi* means that zakat payment has been made mandatory from legal perspective. It is signed with the presence of Zakat Act, which threatens those who are eligible to become muzakki (zakat payers) but unwilling to fulfill their obligation.

⁵ Nature of amil institutions and corporation/company may not be the same. Corporation is business-process and profit oriented institution, while amil is social empowerment-process and social-oriented institution. Corporation focuses on asset growth, while amil focuses on beneficiaries coverage mentioned in the Holy Quran. However, both institutions must be professional, transparent, and accountable.

awareness rather than by force. As for other characteristics, Type 2 model may have the same characteristics with the Type 1.

The third type is secular model. In this model, there is no state involvement in zakat management. Zakat collection and distribution is purely becoming society's domain and they are based on people willingness to manage zakat. Zakat is considered as pure individual matter. No supervision and standardization exists in this model. Moreover, the last model is impossible model (Type 4). It is not possible to make zakat as mandatory from legal perspective without regulation basis.

When the issue of standardization comes into the picture, directing regulatory framework towards comprehensive model should be made as part of the agenda. Although it may be sensitive politically to some of the OIC countries, but at least some attempts must be made. The presence of FSAP (Financial Sector Assessment Program) for Islamic finance that was initiated by IRTI – IDB as a framework determining health level of Islamic financial system in an Islamic country perhaps could assist the realization of this comprehensive model of zakat regulatory framework.

The second issue is related with institutional capacity and performance including availability of qualified human resources. It is very important aspect that can affect sound zakat management system in a country. The presence of standard of measurement determining the performance of zakat institutions is highly needed. However, the measurement standard that is always lagged behind is standard for distribution performance. In practical aspect, most of zakat institutions focus on collection side. The main indicator of good collection performance is based on the number of collected zakat in a year along with its growth rate. Therefore, they attempt to increase service quality for zakat payers and intensify zakat campaign to attract new payers. IT system is used as the backbone to ease payment process done by the zakat payers.

This has no contradiction with the shariah aspect since zakat institution attempts to increase awareness of the people to fulfil their religious obligation. However, when it comes to the distribution side, its services sometimes are not as excellent as on collection side. This may create problem since the basic objective of zakat is to provide assistance and to empower the eligible zakat recipients to the level that meets minimum standard of basic needs fulfillment. Indicator determining the distribution performance of zakat institution is quite rare. Normally, various indices of poverty and income inequality are used as tools of analysis, such as headcount index of poverty, the depth of poverty index, the severity of poverty index, and Gini ratio.

In this regard, Beik and Arsyianti (2015) have attempted to formulate standard of measurement which is called as CIBEST Model⁶. It is a model that combines CIBEST quadrant and calculation of CIBEST indices comprising welfare index, material poverty

⁶ CIBEST is an abbreviation of Center of Islamic Business and Economic Studies. It is research and community service institution under Bogor Agricultural University of Indonesia. Please refer to reference part to obtain the details of the CIBEST Model.

index, spiritual poverty index and absolute poverty index. The concept itself departs from the notion that basic needs that must be fulfilled consist of basic material needs and basic spiritual needs. This is in accordance with Islamic teaching derived from *Al-Quran* and *Sunnah*.

For example, the Quran Surah (QS) 20: 118-120 and QS 106: 3-4 elaborate several items considered as basic needs which must be fulfilled. According to Hafidhuddin (2013) these basic needs comprise the needs to perform worship; the needs on food, clothes and housing; and the needs to security and safety feeling. In this context, two fundamental basic needs are material basic needs and spiritual basic needs. Inability to fulfill these needs will place a person or a household under poor category, either materially poor, spiritually poor or both.

In the CIBEST Model, Beik and Arsyianti (2015) use household as unit of analysis and divide the household into four possible situations with regard to their ability in fulfilling material and spiritual needs. Firstly, a household is able to fulfill both needs, i.e. material and spiritual needs completely. This is called as prosperous household. They live under *hayatan thayyibah* or welfare condition as mentioned by Allah SWT in the QS 16: 97. They will be put under the first quadrant of CIBEST model (vide Figure 2).

Secondly, a household is able to fulfill spiritual needs only, while they are unable to fulfill material needs up to the minimum level. This household lives under material poverty. This is in line with the statement of Allah in the QS 2: 155-156, in which Allah has stated that some people will be tested with lack of wealth, lack of fruits and other material needs. In other words, these people live under material deficiency condition. However, they have strong spiritual condition, which is indicated by their commitment to always surrender themselves to Allah and to maintain their patience and fortitude in the way of Allah. They will be put in the second CIBEST quadrant.

Thirdly, a household is able to fulfill only material needs. As for spiritual needs, this household is unable to fulfill it due to their intentional disobedience towards Allah's commandment. This household basically lives under spiritual poverty condition as has been mentioned in the QS 6: 44. They will be put in the third CIBEST quadrant.

Fourthly, a household is not able to fulfill both material and spiritual needs. This household lives under the category of absolute poverty as has been described in the QS 20: 124. Those who live under absolute poverty are basically the weakest group of the society, and will be placed in the fourth CIBEST quadrant.

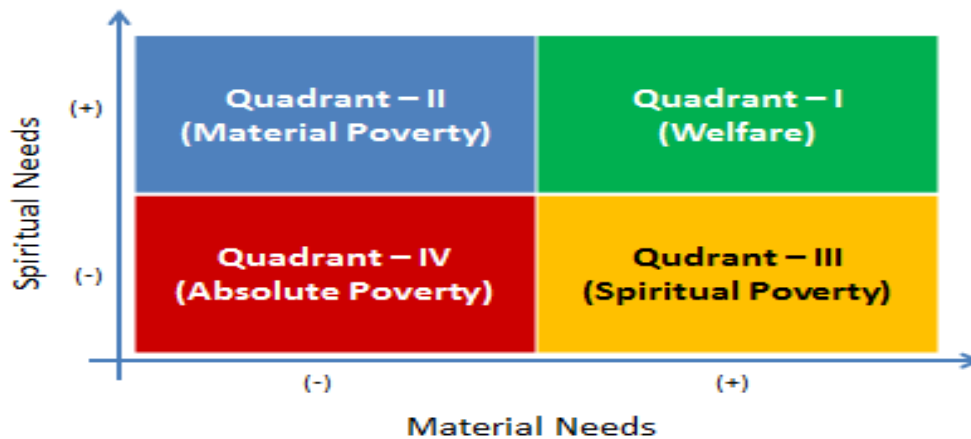


Figure 2. CIBEST Quadrant

Source: Beik and Arsyianti (2015)

Based on this conception and typology of household, Beik and Arsyianti (2015) construct formula to compute welfare index, material poverty index, spiritual poverty index and absolute poverty index which are derived from CIBEST quadrant. Sufficiency in fulfilling the needs also means that the household live above the poverty line, either material poverty line, spiritual poverty line or both lines.

Determination of material poverty line according to Beik and Arsyianti (2015) can be based on three approaches. Firstly, it is based on the periodic survey on the minimum basic material needs. Secondly, standard of poverty line created by the Central Board of Statistics may be used with modification and adjustment, from per capita approach to household approach. Thirdly, standard of *nisab* (exemption limit) of zakat of profession or income may be used as the last alternative. It is because the *nisab* line is the standard separating *muzakki* and *mustahik*.

As for spiritual needs, Beik and Arsyianti (2015) argue that it should be based on three groups of variable comprising worship, household environment and government policy. Worship group consists of three variables, i.e. prayer, fasting and sharing (zakat and infaq), which are obligatory worship in the shariah perspective. Inability to fulfil these worships may reduce spiritual condition of the household and hence, may put them in the spiritual poverty.

The inclusion of household environment and government policy is because these two variables have strong influence towards commitment of household members to perform their worship (*ibadah*) as well as associated with a sense of security and freedom in

performing the worship (Beik and Arsyianti, 2015). Specifically, Table 2 provides the details and indicators of these spiritual needs.

Table 2.
Spiritual Needs Indicator

Variables	Likert Scale					Poverty Standard
	1	2	3	4	5	
Prayer	Blocking others to pray	Against the concept of prayer	Performing obligatory prayer but not on regular basis	Always performing obligatory prayer but not in congregational prayer	Performing congregational prayer for obligatory one and perform recommended prayer	Average score for spiritually poor household is equal to 3 (SV = 3)
Fasting	Blocking others to undertake fasting	Against the concept of fasting	Not fully performing obligatory fasting	Performing only obligatory fasting	Performing obligatory fasting and recommendable fasting	
Zakat and Infak	Blocking others to pay zakat and infak	Against the concept of zakat and infak	Not paying infak at least once in a year	Paying zakat <i>al-fitr</i> and zakat <i>al-maal</i>	Paying zakat <i>al-fitr</i> , zakat <i>al-maal</i> , and infak	
Household Environment	Forbid <i>ibaadah</i>	Against implementation of <i>ibaadah</i>	Consider <i>ibaadah</i> as private matter for household member	Support execution of <i>ibaadah</i>	Creating environment which obligates execution of <i>ibaadah</i>	
Government Policy Environment	Forbid <i>ibaadah</i>	Against implementation of <i>ibaadah</i>	Consider <i>ibaadah</i> as private matter	Support execution of <i>ibaadah</i>	Creating environment which obligates execution of <i>ibaadah</i>	

Source: Beik and Arsyianti (2015)

This CIBEST model can be applied in assessing the condition of mustahik (zakat recipients) prior to and after joining the program. Through this model, it can be identified the changes in the spiritual as well as material conditions of the recipients. For example, in their study towards 221 zakat recipients managed by BAZIS DKI Jakarta and Dompot Dhuafa, Beik and Arsyianti (2015) found that the presence of productive-based zakat programs is able to increase welfare condition of the mustahik by 96.8 percent.

The third issue is related with standardization of *fiqh* of zakat. Although standardization is not intended to dictate the sovereignty of Ulama Council in each Islamic country to issue *fatawa*, but minimizing the differences should be made as one of the most important agenda. There are many examples of different interpretation of *fiqh* of zakat.

For instance, interpretation of *fi sabilillah* as one of the *asnaf* that is eligible to receive zakat. In reality, there are three different interpretation of this *asnaf*. Firstly, *fii sabilillah* is interpreted in a very strict definition, i.e. those who fight in the way of Allah. This fight is translated as *al-qital* or involvement in the war defending Islam.

Secondly, *fii sabilillah* is interpreted in a very wide definition. It involves all types of activities which are designed to serve the cause of Allah. Thirdly, this asnaf is interpreted in a limited extension. Its definition can be widened but only on specific area such as for education and *da'wah* to remote and backward areas.

Another example is related with permissibility to allocate zakat for non-residents of a country or for the programs abroad. Some countries are very strict in understanding the notion of zakat derived from a hadiths when Rasulullah sent Mu'adz bin Jabal to Yemen, i.e. zakat should be collected from the rich among them and distributed to the poor among them. They limit this within the country's boundary. Therefore, it is quite difficult to send zakat outside of the country. There are many other examples regarding this fiqh of zakat. Standardization should be directed towards minimizing the gap of interpretation so that global cooperation among Islamic countries can be strengthened.

The fourth issue is on global zakat cooperation. Strengthening this cooperation should be made as top agenda among Islamic countries. It reflects the spirit of united *ummah*. It should not be understood as an effort of transferring zakat from rich country to poor country only. The issue is much greater than that, i.e. how to increase the quality of zakat management systematically so that the potential of zakat in each country can be optimized and best practice in one country can be replicated in other country. In this light, the need to enhance global cooperation finds its significance.

Another important aspect related with the fourth issue is how to create the same language of zakat management all over the world. For example, the accounting system of zakat should be standardized globally so that people will have similar understanding on financial report of zakat institution. Standardization that takes place in the Islamic banking and financial practices can be made as good reference in this regard.

3. Zakat Core Principles⁷

The presence of the issues elaborated in the previous section has justified the need to have more systematic way in creating standardization of zakat system. As response to this matter, an effort has been made to gather relevant zakat stakeholders, particularly zakat authorities and academicians, in an international working group that was designed to discuss core principles for sound and effective zakat system.

Initiative made by the Islamic Development Bank Group, Bank Indonesia and the National Board of Zakat of Indonesia (BAZNAS) and supported by various strategic countries such as Malaysia and Saudi Arabia has become a momentum to push forward this standardization process. Currently there are more than 10 countries involved in the working group meetings. The presence of the World Bank, the World Zakat Forum, and the United

⁷ The discussion of this section is totally based on the document of zakat core principles that was prepared by Beik, I.S., Hanum, H., Muljawan, D., Yumanita, D., Fiona, A., Nazar, J.K. (2015).

Nations in this working group has given more weight to the significance of the working group meetings.

It is acknowledged that initially the document discussed in the first working group meeting was inspired by the document of Basel core principles (BCP). BCP is the one that has been made as source of reference for banking operation throughout the world. In general, the BCP is divided into two groups of principles, i.e. the group of supervisory powers, responsibilities and functions comprising seven principles and the group of prudential regulations and requirements comprising sixteen principles.

After extensive and deep discussion, the international working group on zakat principles agrees to propose seven principles in the first group and eleven principles in the second group. Obviously this division was made under a notion that there is significant difference in the zakat system that cannot be similirized with banking system. Only relevant principles of BCP are accommodated in the Zakat Core Principles (ZCP). Tabel 3 and Table 4 provide general comparison between Basel Core Principles and Zakat Core Principles.

Table 3. Supervisory Powers, Responsibilities and Functions

Basel Core Principles	Zakat Core Principles
BCP 1 : Responsibilities, objectives and powers	ZCP 1 : Objectives, independence, and powers
BCP 2 : Independence, accountability, resourcing and legal protection for supervisors	
BCP 3 : Cooperation and collaboration	
BCP 4 : Permissible activities	ZCP 2 : Permissible activities
BCP 5 : Licensing criteria	ZCP 3 : Licensing criteria
BCP 6 : Transfer of significant ownership	-
BCP 7 : Major acquisitions	-
BCP 8 : Supervisory approach	ZCP 4 : Zakat supervisory approach
BCP 9 : Supervisory techniques and tools	ZCP 5 : Zakat supervisory techniques and tools
BCP 10 : Supervisory reporting	ZCP 6 : Zakat supervisory reporting
BCP 11: Corrective and sanctioning powers of supervisors	ZCP 7 : Corrective and sanctioning powers of zakat supervisor
BCP 12 : Consolidated supervision	-
BCP 13: Home-host relationships	-

Source : Document of ZCP (2015)

Table 4. Prudential Regulations and Requirements

Basel Core Principles	Zakat Core Principles
BCP 14: Corporate governance	ZCP 8 : Good amil governance
BCP 15: Risk management process	ZCP 9 : Collection management
BCP 16: Capital adequacy	
BCP 17: Credit risk	
BCP 18: Problem assets, provisions and reserves	ZCP 10: Disbursement management
BCP 19 : Concentration risk & large exposure limits	

BCP 20: Transactions with related parties	ZCP 11: Country and transfer risks
BCP 21: Country and transfer risks	
BCP 22: Market risk	ZCP 12 : Reputation and muzakki loss risk
BCP 23: Interest rate risk in the banking book	-
BCP 24: Liquidity risk	ZCP 13: Disbursement risk
BCP 25: Operational risk	ZCP 14: Operational risk
BCP 26: Internal control and audit	ZCP 15: Shariah control and internal audit
BCP 27: Financial reporting and external audit	ZCP 16: Financial reporting and external audit
BCP 28: Disclosure and transparency	ZCP 17: Disclosure and transparency
BCP 29: Abuse of financial services	ZCP 18: Abuse of zakat services

Source: Document of ZCP (2015)

These 18 core principles can be further classified under six dimensions. Those are legal foundation, zakat supervision, zakat governance, intermediary function, risk management and shariah governance. Table 5 portrays each dimension along with its principles.

Table 5. Dimensions of Zakat Core Principles (ZCP)

No.	Dimensions	ZCP
1	Legal Foundations	ZCP 1 – ZCP 3
2	Zakat Supervision	ZCP 4 – ZCP 6
3	Zakat Governance	ZCP 7 – ZCP 8
4	Intermediary Function	ZCP 9 – ZCP 10
5	Risk Management	ZCP 11 – ZCP 14
6	Shariah Governance	ZCP 15 – ZCP 18

Source: Document of ZCP (2015)

Legal foundation stresses on the importance of setting up laws and regulations by relevant zakat authorities based on the stage of development of zakat institutions operating in a country. The presence of clearly defined legal foundation is also important to ensure that zakat institutions can operationalize zakat collection and distribution.

There are three core principles with regard to this legal foundation aspect. The ideal form of this legal foundation lies in the existence of Zakat Act. The first ZCP provides essential criteria to identify and determine certain institution that is given the power to supervise the operation of zakat system. This ZCP 1 aims to promote minimum standard for sound regulation and supervision of zakat management system, which should be defined in the Zakat Act.

As for the format of institution that is given the power to supervise may be different from one country to another country. It can be done by Ministry of Religious Affairs, State Islamic Religious Council or by other institutions such as the National Board of Zakat and so on. The most important thing is this institution must be clearly stated in the Act.

The second ZCP aims to define general principles for permissible activities of zakat institution. Those include the essential criteria for zakat collection, zakat distribution and other religious charitable fund that could be collected by zakat institution. These permissible activities must be clearly stated in the Zakat Act.

The third ZCP is related with licensing criteria. Licensing here means the power to approve or to reject establishment of zakat institution, whether to allow single or many institutions to operate zakat. It will be depending upon each country's policy. However, this principle must be accommodated in the Zakat Act.

Zakat supervision, as the second dimension, deliberates the dimension of supervisory aspects of zakat supervisory institutions that cover supervisory approach, techniques and tools, and reporting. It is reflected in the ZCP 4 to ZCP 6.

The fourth ZCP deals with the supervision scheme, which comprises the framework, methodology and assessment of supervision covering all aspects of zakat management system. The fifth ZCP emphasizes on the use of appropriate range of techniques and tools to implement the supervisory approach and employs zakat supervisory resources which are subject to adequate validation and verification. Lastly, the sixth ZCP is related with the analysis on the performance of zakat institution.

The third dimension, i.e. zakat governance, is the backbone of zakat regulations as it is detrimental to ensure zakat activities operate in accordance to Islamic virtues and domestic legal acts and zakat regulatory framework. By doing so, zakat institutions can become trustworthy institutions to collect zakat funds so optimal level of zakat collection can be reached. This dimension is reflected in the ZCP 7 and ZCP 8.

The seventh ZCP suggests the zakat supervisory institution to have an adequate range of supervisory tools to bring about timely corrective actions, the ability to revoke the license of zakat institutions and to recommend its revocation. The eighth ZCP discusses the principle of good amil governance. Instead of using the terms of corporate governance, the ZCP document uses amil governance as its term. It is because corporate and amil have different philosophy. Therefore, the term of amil governance is more appropriate to be used in the principle. This amil governance will significantly determine the performance of the entire zakat system.

The fourth dimension, which is intermediary function, basically elaborates the main function of zakat institution that is to bridge between muzakki as the surplus unit of the economy and mustahik as the deficit unit of the economy. It consists of two ZCPs, i.e. ZCP 9 and ZCP 10.

The ninth ZCP provides core principles of collection management. It aims to provide adequate policies and processes for *nisab* assessment and zakatable assets. Meanwhile, the tenth ZCP is found to be the longest core principle as it deals with the distribution aspect of zakat. This ZCP also introduces allocation to distribution ratio (ACR), which measures the amount of zakat fund distributed to the mustahik compared to the zakat collected from muzakki.

Furthermore, ZCP 10 acknowledges two types of zakat distribution program, i.e. consumptive-based zakat programs and productive-based zakat programs. The former is designed to meet short term basic needs of the mustahik while the latter aims to empower the mustahik so that they will have sustainable sources of income for long term survival of their life. If possible, these mustahik could be transformed into muzakki in the long run.

The fifth dimension is related with risk management of zakat institution. Perhaps this is a new term in the zakat world. It may be familiar with Islamic banking and finance but it is still unknown to the zakat practitioners. ZCP 11 to ZCP 14 reflects this dimension.

The eleventh ZCP emphasizes on the adequate policies and processes to control country risk and transfer risk of zakat in their international zakat transfer activities. The twelfth ZCP is related with the need to have adequate management framework to handle contagion, reputation, and lack of confidence risks. The thirteenth ZCP is related with mitigation of allocation risks such as financial position sound and misallocation of distribution activities. Lastly, the fourteenth ZCP elaborates the need to have proper operational and shariah compliant risks management to minimize potential fraudulent practices, anticipation towards system breakdown and any other potential disturbance.

Last but not least is the shariah governance dimension. It covers audit, disclosure, and transparency aspects is important dimension to ensure shariah compliant in every aspect of operational zakat activities. ZCP 15 – ZCP 18 provide comprehensive guidance to the top level management of the zakat institution in discharging its duties in matters relating to shariah.

The fifteenth ZCP proposes the need to to have appropriate shariah control and internal audit frameworks to establish and maintain a properly controlled operating environment in the light of shariah. The sixteenth ZCP emphasizes on the importance of maintaining reliable records of financial statements, annual publication and external audit function. The last ZCP stresses the importance of regular publication of consolidated information that is easily accessible and fairly reflects their financial condition and performance.

It is expected that these core principles will provide comprehensive guidance of having sound and effective zakat system. However, this ZCP document requires further detailed documents translating each principle into operation of zakat system. Therefore, it is still a long way to go.

4. The Way Forward

One important aspect in this international standardization effort is the way forward. In this regard, there are at least four stages needed in order to optimize global zakat potential and enhance cooperation among zakat authorities in the OIC member countries and Muslim minority countries.

Firstly is the need to extend the number of countries involved in the discussion of zakat core principles and its detailed documents. This is very important as the media to strengthen communication and coordination among these countries. Countries like Indonesia, Malaysia and Saudi Arabia are expected to play bigger role in the campaign of the standardization of global zakat management system.

Secondly, the presence of dedicated multilateral institution that is responsible in handling this standardization process is highly needed. Therefore, an initiative to establish Islamic Inclusive Financial Services Board (IIFSB) as institution responsible for standardizing zakat, waqf and Islamic microfinance should be strongly supported. IIFSB can be optimized to facilitate global zakat cooperation.

Thirdly, the World Zakat Forum can play more role in supporting this standardization effort. Initiative to promote technical aspect on international standard of zakat management should be communicated extensively with relevant authorities and member countries of the Forum. This will accelerate the process to have standardized international zakat system.

Fourthly, communication between zakat authorities and institutions with government and Islamic Religious or Ulama Councils in each country should be strengthened. It aims to create awareness on this international effort. It is expected that zakat development will be made as an important and strategic sector that should incorporated in the national economic policy in all OIC member countries.

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