

ENHANCING EFFICIENCY IN ZAKAT INSTITUTIONS

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Abstract: *The system of zakat is the most influential system of wealth-sharing and as a symbol of Islamic economic justice that assurance of an equal and trustworthy distribution of wealth. Proper and efficient management of the zakat system is important in assessing the ability to achieve the organization's goals and objectives. The potential role of zakat institutions as an agent for empowering ummah is evidenced by the institutions' ability to cater to Asnaf's needs. Efficient zakat management activities include a competent zakat institution to collect zakat and effective zakat distribution. The objective of this study is to identify and compare the efficiency level of zakat institutions in Malaysia. To achieve this objective, a quantitative approach is adopted using zakat disbursement efficiency measurement (ratio analysis). The findings shows that the De score of zakat institution in Selangor is found to be the highest while the De score of zakat institution in Sarawak is the lowest. It is essential for each zakat institution to timely measure and understand their efficiency in the collection of zakat for the sake of long-term sustenance.*

Keywords: Efficiency, Zakat Collection, Zakat Distribution, Zakat Institutions

1. Introduction

Zakat is one of the five fundamental pillars of Islam. Allah (s.w.t) has prescribed to the believers the payments of zakat as an obligatory form of worship (Ibadah). Zakat, on one hand, purifies one's wealth, heart and soul, while, on the other hand, is to help the poor and needy through channeling zakat collected to members of society who are in need (Asnaf). The assessment of zakat includes the conditions of being a Muslim by faith, full ownership, attained *Nisab* minimum limit and completion of one lunar year (Haul). The rate of 2.5% is taken from the more affluent persons be paid to authorized zakat institutions (Amil) and the amount will be distributed to the eight groups of zakat recipients (Asnaf) as mentioned in Surah Al-Tawbah verse 60.

The existence of zakat institutions in every state in Malaysia can be looked at as alternative assistance on top of government to support the poor and needy to improve their life. (Zulkifli et al., 2021). Efficient zakat institutions are important in assessing the ability to achieve the organization's goals and objectives. (Ghani et al., 2018). According to Khasandy & Badrudin (2019), efficient zakat institutions refer to how well the institutions are using their resources for example the expenditure and zakat collection in meeting their socio-economic justice which is reducing poverty, enhancing social welfare and demonstrating accountability to the zakat payers.

Zakat institutions in Malaysia are legislated separately by each state authority (SIRC). However, several zakat institutions have undergone corporatization such as Selangor, Wilayah Persekutuan Kuala Lumpur, Pahang, Pulau Pinang, Melaka and Negeri Sembilan and special institutions have been established. Corporatization of zakat institutions has opened a new phase in zakat administration, which leads to being managed efficiently. Figure 1 evidenced the highest zakat collector from corporatized zakat institutions (Selangor) have shown a great progression in the collection and distribution of zakat from 2019 to 2022. However, there is still a gap between the collection and distribution of zakat due to the inefficiency of zakat institutions.

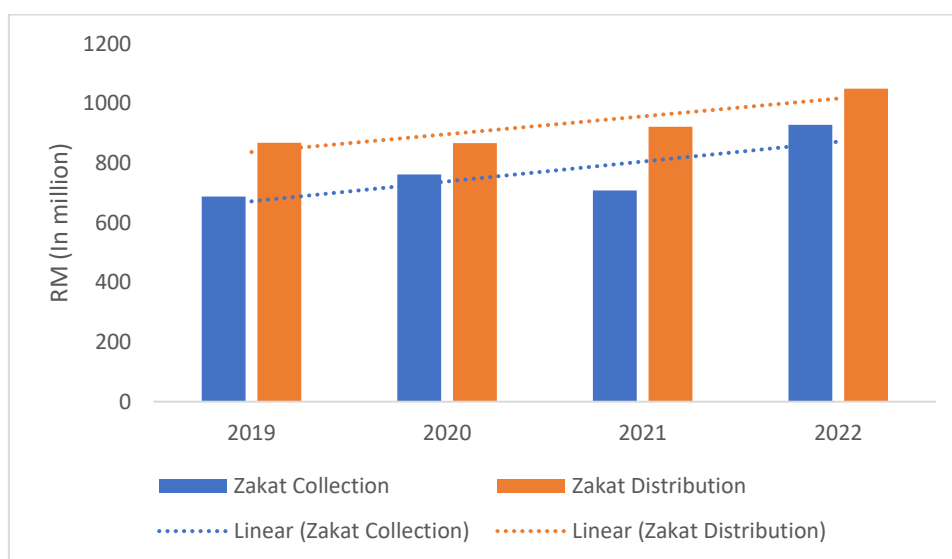


Figure 1. Zakat Collection in Selangor 2019-2022

The identification of internal and external factors that influence the zakat institutions' efficiency can lead to increase in the potential of zakat as the economic empowerment tool. Besides, it can increase the ability of zakat institutions' management and administration to control and manage the impact. Recognizing this gap, this study aims to analyze and compare the efficiency level in zakat institutions and the determinants factors that have influence on zakat institutions' efficiency level. The remainder of this paper is organized as follows. Section 2 explains the literature review on zakat. Section 3 describes the methodology of the study. Section 3 provides findings and discussions of this study. Section 4 concludes the paper with a summary, implications and recommendation for future research.

2. Literature Review

2.1 Zakat and Economy Growth

In Islamic economic perspective, economic growth is intended to increase people's well-being in accordance with Islamic teachings. To achieve this objective, zakat is one of instrument of state income that has a significant effect on boosting the growth of the Islamic economic system (Ashfahany et al., 2023). The relationship between zakat and economic growth is strongly influenced by the effectiveness of the collection and distribution of zakat. When people pay zakat, the level of economic growth will be higher and vice versa. As the main objective of

zakat is the achievement of socioeconomic justice, an improved payment and appropriate distribution of zakat can promote human capital development (Amosa, 2021).

Zakat distribution reduces poverty and economic inequality which also helps to ease the economic burden of poor people and improve their social life (Suprayitno, 2019). This finding is also supported by Ben Jedidia & Guerbouj (2021), which find that through the distribution of zakat, it can increase household consumption, investment and government expenditure in the short and long term. Similarly, Khasandy & Badrudin (2019), find that an increase of zakat in the short run can increase the social life and quality of the recipient while in the long run, zakat can increase consumption, investment, and demand for labor and stimulate zakat recipients to become zakat payers. If zakat is implemented in its comprehensive form, the benefit to the society and the country would be enormous and it would be able to contribute positively to economic development and thus reducing poverty incidence.

2.2 Malaysian Zakat Institutions

Zakat management is the task of the state or government which requires appointing collectors and distributors, whether they are in the form of individuals or institutions. The respective state authority involved in the zakat administration carries out the following responsibilities which are promoting, collecting and distributing zakat funds to the poor and needy following Shariah guidelines (Migdad, 2019). The state's role in the collection and distribution of zakat is best supported by the surah that mentions "those who collect" (9:60) as one of the categories to whom zakat is distributed. The surah explicit evidence that there should be a specialized body with workers who drive their income from the work they do. There are 13 states in Malaysia, and 3 federal territories, each having a Sultan and religious council which acts as the responsible body for collecting and distributing the zakat.

In several states, the administration of zakat has been corporatized and special zakat institutions were established. Eight religious Councils have so far been corporatized starting with Pusat Pungutan Zakat (PPZ), Wilayah Persekutuan in 1991, followed by Pusat Zakat Selangor, Pahang and Pulau Pinaang in 1995 and lastly Pusat Pungutan Zakat Negeri Sembilan and Melaka in 2000 (Ab Hamid & Wan Jusoh, 2016). These were followed by Tabung Baitulmal Sarawak in 2001 and Pusat Zakat Sabah in 2007. The latest is Pusat Zakat Kedah which was been corporatized in 2015. However, it is learned that, generally, corporatization focused only on zakat collection while zakat distribution remained the responsibility of the State Islamic Religious Councils (SIRC). Only the zakat institutions in Selangor, Negeri Sembilan, Kedah, Penang and Perak manage both zakat collection and distribution (Ahmad & Ma'in, 2014).

2.3 Factors Affecting Zakat Efficiency

The improvement of zakat institutions in various aspects such as human capital, corporation, technology usage and many more are highly significant factors in improving the efficiency of zakat institutions. However, the main issues and challenges for zakat institutions to achieve the efficiency level are identifying the rightful recipients and motivating zakat payers. (Saad et al., 2014; Zaenal et al., 2017). Zakat institutions can maintain its efficiency if there is continuity in zakat payment and effective distribution to Asnaf.

The efficiency of zakat institutions has always been highlighted. Al-Ayubi et al., (2018) use Data Envelopment Analysis (DEA) to analyze zakat institutions' efficiency from the technical and allocative aspects. Muftadi & Susilowati (2018), describe the development of the Zakat Distribution Efficiency (ZDE) model using ratio analysis to analyze the efficiency of

zakat management by institutions. Other studies from Adam & Pertiwi (2019), discuss that zakat institutions in Malaysia achieve high efficiency in terms of distribution rather than collection. Thus, efficiency in zakat system occurs when it can produce more goods and services for society with the same or lower amount of resources. Efficient zakat management can increase the output (zakat distribution), while inputs (zakat collection) stay the same or decrease.

Previous studies suggested that internal and external factors have influenced zakat collection and zakat distribution amount (Senawi et al., 2018; Wicaksana et al., 2020). External factors which is uncontrollable such as macroeconomic factors will influence household and business income and indirectly affect people's ability to pay zakat. An increase in GDP shows an increase in household income and consumption patterns (Muttaqin & Halim, 2020). Rahayu (2021) found that the inflation rate affects peoples' purchasing power and decreases the consumption expenditure which will influence peoples' decision in allocating funds including for social funds such as Zakat. Besides, loss of income due to long-term unemployment also will affect the individual's capacity to pay zakat (Jauhari et al., 2021).

An efficient zakat system can also be achieved internally such as through corporatization. Since zakat management in Malaysia have different forms of organizational structure, it might cause different efficiency levels in terms of collection, distribution and expenses. However, corporatization is said to have successfully increased the amount of zakat collection (Nahar, 2018). The proactive decision to corporatize the collection and distribution of zakat makes a difference and extends the benefits. The reason for the corporatization of zakat institutions in Malaysia is to enhance the capability and effectiveness of zakat collection and distribution of zakat under the State Islamic Religion Councils (Abdullah Sani et al., 2021).

3. Research Method

This research is conducted based on quantitative approaches. Primary data is collected based on zakat institutions' annual report, zakat institutions' website and existing literatures. Overall, 13 zakat institutions have been selected in this research and the financial data from 2017-2020 was chosen for this study. Efficiency will be measured based on zakat disbursement efficiency ratio to assess how much has been distributed from the collection of zakat every year. The findings of the observation are presented below.

4. Findings

Table 1 below summarizes the results of observation among 13 zakat institutions in Malaysia particularly on zakat collection and zakat distribution efficiency. Efficiency will be measured using ratio analysis which is disbursement efficiency (De). Table 1 summarizes the performance indicator for the zakat distribution ratio based on the opinion of Beik et al., (2016). Zakat distribution depends highly on the identification of zakat recipients and the more funds collected which will result in greater distribution.

Table 1. Performance Indicators on the Ratio of Zakat Distribution

No	Distribution Ratio	Ratio Category
1	$\geq 90\%$	Highly Effective
2	$\geq 70\% - 89\%$	Effective
3	$\geq 50\% - 69\%$	Fairly Effective
4	$\geq 20\% - 49\%$	Below Expectation
5	$\leq 20\%$	Ineffective

Based on Table 2, the De score of zakat institution in Selangor is found to be the highest (113.269) while the De score of zakat institution in Sarawak is the lowest (45.038). Overall Lembaga Zakat Selangor (LZS) recorded highly effective performance in zakat collection and zakat distribution. This finding is supported by Riani et al., (2024) which identifies that Selangor is the most stable zakat institution and has the highest efficiency score. Based on the result, the concern of the differences between efficiency scores of different zakat institutions should be paid more attention as the results between the minimum and the maximum score are even bigger. Moreover, most of the zakat institutions not manage to distributed 100% of zakat funds.

Table 2. Summary of Distribution Efficiency Score Zakat Institutions in Malaysia 2017-2020

State	De (%)
Perak	93.23323
Kedah	90.51544
Pulau Pinang	91.89224
Kelantan	94.38965
Terengganu	103.9426
Pahang	94.87248
Wilayah Persekutuan	80.18452
Selangor	113.2699
Negeri Sembilan	86.53344
Johor	98.10407
Melaka	90.01854
Sabah	79.89835
Sarawak	45.03841

5. Conclusion

The findings of this study contribute to an improved understanding of the performance of zakat institutions in Malaysia. Overall, the efficiency level score of zakat institutions is still low

during 2017-2020. Corporate zakat institutions such as Selangor seem to have great efficiency level scores. This study also indicates that macroeconomic factors have influence on the ability of zakat payers. An efficient zakat collection system is essential to increase the effectiveness of zakat distribution. This study provides insight into the strategy of how zakat institution could optimize their efficiency. Current study only focuses on selected external and internal factors. Future studies can be conducted by exploring potential factors that have influenced on zakat institutions' efficiency.

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