

## **Zakat and Poverty Alleviation: Roles of Zakat Institutions in Malaysia**

**Farah Aida Ahmad Nadzri**

PhD Candidate

**RashidahAbdRahman**

Professor in Corporate Governance and Islamic Finance

**Normah Omar**

Professor in Management Accounting and Financial Criminology

Accounting Research Institute

UniversitiTeknologi MARA (UiTM)

40450 Shah Alam, Selangor, Malaysia.

[aidanadzri\\_84@yahoo.com](mailto:aidanadzri_84@yahoo.com), [shidah@salam.uitm.edu.my](mailto:shidah@salam.uitm.edu.my)

Tel: +(60)3-5544 4829, Fax: +(60)3-5544 4992

### **ABSTRACT**

*In Islam, poverty is defined based on an individual failure to fulfil any of the five basic human requirements of life that is based on Maqasid Syariah: i) religion, ii) physical self, iii) knowledge, iv) dignity, and v) wealth. Consistent with the brotherhood concept in Islam, Muslims were strongly encouraged to look after the poor in their community. Thus, in 9AH, the obligation to pay zakat on wealth was received by the Prophet Muhammad (pbuh). History proves that zakat is an effective tool to alleviate poverty as during the period of Umar bin Al Khattab and Umar bin Abdul Aziz poverty is completely eliminated. However, with the fall of Islamic Empire and the increasing European influence during the colonialism period, Zakat Institutions have lost their glory. Therefore, the objective of this paper is to provide a conceptual study on the roles of zakat in alleviating poverty especially in Malaysia by examining both theory and practical aspects. It is also suggested that the effectiveness of Zakat Institutions may improve by collaborating with other institutions such as Microfinance Institutions.*

**Keywords:** zakat, poverty alleviation, Zakat Institutions in Malaysia.

### **I. INTRODUCTION**

*Tawheed* is the basis of Islamic faith. Mirza and Baydoun (1999, p. 2) define *tawheed* as “unity or oneness to God”. It is related to the belief that this universe and its contents are created by God, and human beings as *khalifah* (vice-regent) are responsible to manage the world’s resources and the *ummah* (community of believers) properly (Abdul-Rahman & Goddard, 1998; Sulaiman, 2003). Based on this concept, it is obvious that one needs to adhere to the Islamic requirements in every aspect of his or her life including religious, political, social, and economic activities in order to maintain a good relationship with God. In general, Muslims believe that they are responsible for their actions and all actions are accountable to God on the Day of Judgment. As God created the universe, God is the ultimate owner of everything and human beings are

only responsible to steward the God's possessions. Thus, human beings need to manage their property according to the God's way. This main concept constitutes the unique characteristics of the Islamic economic system as opposed to the conventional economy. One of the uniqueness of the Islamic economic system is the requirement to pay *zakat*.

Muslims are obligated to pay *zakat*, one of the five "pillars" of Islam. It is payable on business revenues and assets, gold and silver, and savings at the basic rate of 2.5% (Gambling & Karim, 1986; Hamid et al., 1993; Mohamed, 2007; Mohamed Ibrahim, 2001; Lewis, 2001; White, 2004). Mohamed (2007) claims that Islam requires its followers to pay *zakat* so that the money collected can be of help for the poor to have basic requirements in life. Unlike conventional tax, *zakat* is viewed by Muslims as a means of 'purifications' and not just an obligation (Gambling & Karim, 1986). Furthermore, Sulaiman (2003) states that *zakat* plays an important role not only in the economy, but also in the moral and social well-being of a society. Morally, *zakat* promotes sharing of wealth and eliminates greediness, whilst socially; it helps to reduce poverty within the community (Gambling & Karim, 1986; Sulaiman, 2003). As a result, wealth is widely distributed to all sections of the society and this, undoubtedly, encourages healthier economic environment. As stated in Nasir and Zainol (2007), the seven categories of people that are eligible to receive *zakat* include "the poor, the needy, the wayfarer, the heavily indebted, freedom of slaves, new converts to Islam, and the cause of Allah." (p. 262).

Therefore, the objective of this paper is to provide a conceptual study on the roles of *zakat* in alleviating poverty especially in Malaysia by examining both theory and practical aspects. This concept paper is structured as follows: Section II deals with the theoretical roles of *zakat* in alleviating poverty. While Section III looks at the *zakat* practice during Caliphs' ruling, Section IV deals with the current practice of *zakat* distribution in Malaysia. Finally, Section V and VI is devoted to conclusion and relevant recommendation.

## II. ZAKAT AND POVERTY ALLEVIATION

Poverty has become an economic, social, and political issue all over the world particularly in the developing and third-world nations including many of the Muslim countries. Parties from various organizations, such as the United Nations (hereafter, UN) and World Bank are working hard to eradicate poverty with all kinds of activities, programs, services, and policy developments. In 2000, the UN organized an event that gathers the leaders of the nations to sign the "Millennium Development Declaration". On that day, these world leaders pledged to work together to achieve the "Millennium Development Goals" by the year 2015, where one of the objectives is to significantly reduce the number of extreme poverty and hunger globally (United Nations, 2012). Similarly, a year before, International Monetary Fund (hereafter, IMF) and World Bank introduced the Poverty Reduction Strategy (henceforth, PRS) that outline a comprehensive country-based strategy to significantly reduce poverty. In general, it is believed that governments and markets alone are unlikely to solve the poverty problem. Therefore, it is crucial for other parties consisting of general societies, non-profits and non-government organizations to actively participate in encouraging economic growth and welfare, thus alleviating poverty.

Generally, poverty is measured in monetary terms, based on the income levels or consumption per capita or per household. In 2008, the World Bank has redefined the international poverty line at \$1.25 a day instead of \$1 a day, based on the purchasing power parities (World Bank, 2008). Based on this new figure, it was suggested that those who earned less than \$1.25 a day are categorized under absolute poverty. Furthermore, according to a UN declaration, poverty is defined as:

*“..denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one’s food or a job to earn one’s living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation”.*

(UN Statement, June 1998)

On the other hand, Islam defines poverty based on an individual failure to fulfil any of the five basic human requirements of life that is based on *Maqasid Syariah*<sup>1</sup>: i) religion, ii) physical self, iii) knowledge, iv) dignity, and v) wealth (Hassan, 2010). Islam, being a religion of balance, views poverty as social and ideological problems. It is considered as social problem because the effects are felt in the society as a whole. Moreover, it is also an ideological problem as it affects the performance of one’s socio-religious obligation towards the community and Islam, and may even lead to *kufir*<sup>2</sup>. Furthermore, a *hadith*<sup>3</sup> reported that Prophet Muhammad (pbuh) has sought Allah’s refuge from poverty.

*"O Allah! I seek refuge with You from laziness and geriatric old age, from all kinds of sins and from being in debt; from the affliction of the Fire and from the punishment of the Fire and from the evil of the affliction of wealth; and I seek refuge with You from the affliction of poverty, and I seek refuge with You from the affliction of Al-Mesiah Ad-Dajjal. O Allah! Wash away my sins with the water of snow and hail, and cleanse my heart from all the sins as a white garment is cleansed from the filth, and let there be a long distance between me and my sins, as You made East and West far from each other."*

(Hadith – Sahih Bukhari)

Therefore, it was suggested that poverty cannot be alleviated through income redistribution only, but it needs to include a holistic approach. Hassan (2010) and Sadeq (1997) argues that based on the Islamic perspectives, poverty may be eliminated by using three distinct set of measures; i) positive measures, ii) preventive measures, and iii) corrective measures. The poverty eradication strategies forwarded by Sadeq(1997) is summarized in Figure 1 below:

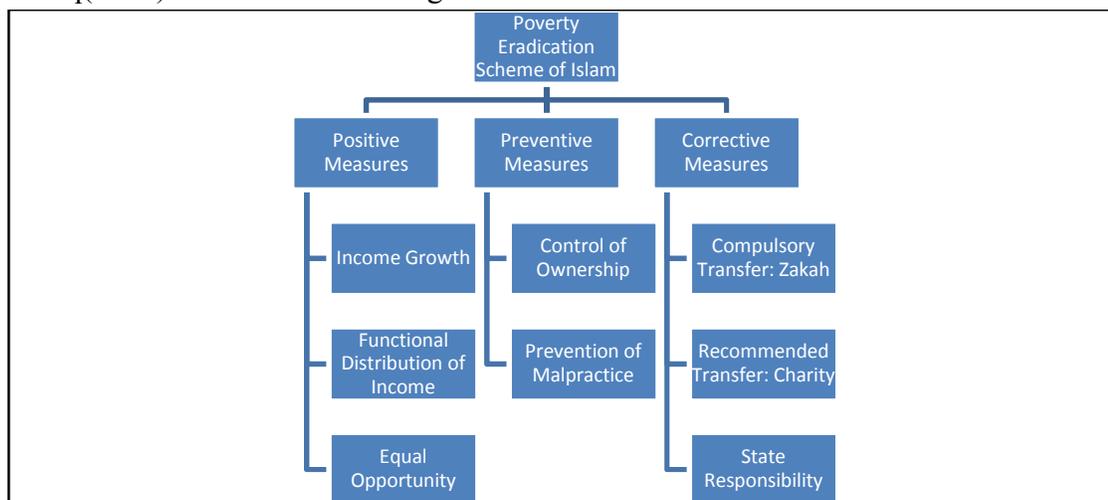


Figure 1: Poverty Eradication Scheme of Islam (Sadeq, 1997, p. 121)

<sup>1</sup> Goals and objectives of Islamic law

<sup>2</sup> Not believing in Allah and Prophet Muhammad (pbuh)

<sup>3</sup> Saying attributed to Prophet Muhammad (pbuh). It includes what he said, did, or approved

As shown in Figure 1 above, one of the corrective measures of poverty eradication is through the payment of *zakat*. According to Qaradawi (1999), the word “*al-zakah*” has been mentioned thirty times in the Holy Quran. Literally, *zakat* means to grow and to increase, while in *Shari’ah*, *zakat* is a concept referring to the redistribution of wealth prescribed by God to the deserving category of people. Besides poverty eradication, *zakat* aims to eliminate greediness among Muslims and encouraging socially oriented behaviour. Overall, it is expected that the payment of *zakat* will purify the income of the *zakat* payer, reconcile the hearts of payer and *asnaf*, satisfy the basic needs of the poor and needy, and solving the social problems such as poverty, unemployment, indebtedness and unfair income distribution (Dogarawa, 2009; Qaradawi, 1999). According to Mahamud (2011), systems like *zakat* also existed in other religions such as the Hindu concept of almsgiving (known as *datrtadatrtva*); *danain* Buddhism; and *tithe* in Christianity. *Tithe* for instance refers to the requirement of paying part of one’s income to the Church for the maintenance of the institution, the support of its ministers, the promotion of its works and the relief of the poor.

Historically, *zakat* has been practiced since the early Muslim community in Mecca with the main objective is to help the poor and the needy (Qaradawi, 1999). Consistent with the brotherhood concept in Islam, Muslims were strongly encouraged to look after the poor in their community. As stated in *Surah Al-Muddahthir*, verse 38-45, one of the reasons those people are sent to Hell is because of the failure to feed the poor and the needy. Although *zakat* has been practiced earlier in Mecca, it was only made compulsory after *hijra* to Medina. In general, there are two types of *zakat*, i) *zakat al-fitr* or *zakat* on oneself, and ii) *zakat al-mal* or *zakat* on wealth. *Zakat al-fitr* was made compulsory for all Muslims in 2 AH (after *Hijra*). It is a small amount that all Muslims are obliged to pay during the fasting month (*Ramadhan*). On the other hand, Muslims also have been required to pay *zakat al-mal* since 9 AH and it is payable at any time of the year if a person’s annual income (*haul*) exceed the exemption limit (*nisab*).

*Al-Quran* does not define the zakatable items nor does it provide the required percentage of *zakat*. It is left to Prophet Muhammad (pbuh) to enlighten the followers of the general commands in the Quran either explicitly or by providing examples. However, according to Qaradawi (1999), there are a few items or assets mention in the Quran as zakatable such as gold and silver based on the verse 34 of chapter 9, “*And those who hoard up gold and silver, [the money, the Zakah of which has not been paid] and spend them not in the Way of Allah, announce unto them a painful torment*” (p. 353). Additionally, in the second chapter, verse 267, Allah says “*...spend of good things which you have (legally) earned, and of that which We have produced from the earth for you....*” (p. 60). It is believed that the above verse specifically requires the payment of *zakat* on earnings based on trades or other types of business activities; as well as gains from agricultural and horticultural products. Beside these items, *zakat* is mentioned in general in the Quran such as in the verse “*and in their properties, there was the light of Sa’il (the beggar who asks) and the Mahrum (the poor who does not ask other).*” (p. 708).

Qaradawi (1999) emphasized that *zakat* should be paid on *amwal* (wealth or assets) based on the general texts available in the Quran and Sunnah, such as in verse 103 of the ninth chapter. Allah says:

“*Take sadaqah (alms) from their wealth in order to purify them with it.*” (p. 262).

Qaradawi (1999) further explained that during the revelation of The Quran period, the word *amwal* was originally meant as owned gold and silver, but this was then generalized to include all things that people like to acquire and own, including livestock, agricultural products, and land.

Among the four major schools of thoughts in Islam, there are some differences in the meaning of the word *amwal*. According to The Hanafis, *amwal* is inclusive of everything that a person usually buys and uses. Thus, there are two conditions that need to be considered in order to classify the items as *amwal*; (i) the

possibility of earning it, and (ii) the possibility of using it. This further broadened the meaning of *amwal* to include all owned equipments, furniture, and money. Based on The Hanafis definition, even though the items are not actually obtained and used, but there are possibilities of obtaining and using them in the future; such as fish in the sea or usable animals in the forest, these items shall be considered as *amwal* as well. Consequently, based on The Hanafis' definition, services provided such as financial and customer services are not *amwal* as these services are not obtainable (Qaradawi, 1999).

However, according to the other schools of thoughts, namely The Malikis, The Shafiis, and The Hanbalis, an item should be considered as *amwal* once the possibility of obtaining the source of *amwal* is satisfied. Therefore, based on the condition, services provided by a business should be considered as *amwal* according to these three schools of thoughts. This is based on the condition that as a car can be obtained physically, thus, its utility shall be considered as *amwal*. However, Qaradawi (1999) personally prefer the definitions provided by The Hanafis as this appears to be closer to the early definition of *amwal* and more applicable. According to the scholar, it is not appropriate to collect *zakat* from services and distribute them to the deserving people as service provided is not considered as material assets. For example, if a poor family is allowed to stay in a *zakat* payer's house without any charge incurred, this does not waived the *zakat* payer's obligation to pay *zakat*, as utility is not material and cannot be obtained (Qaradawi, 1999).

Even though the amount and the *zakatable* items are not clearly defined in the *Al-Quran*, it specifically mentions the eight categories of *zakat* recipients, namely, i) hardcore poor; ii) poor; iii) *amil*<sup>4</sup>; iv) *mu'allaf*<sup>5</sup>; v) *riqab*<sup>6</sup>; vi) *gharmin*<sup>7</sup>; vii) *fi-sabilillah*<sup>8</sup>; and viii) *ibnussabil*<sup>9</sup>. In the Holy Quran, Allah (SWT) says:

*"Alms are for the poor and the needy, and those employed to administer zakat (amil), for those whose hearts have been reconciled to the Truth, for those in bondage and in debt, in the cause of Allah and for the wayfarer"* (9:60)

Although eight categories of *asnaf* have been mentioned in the *Qur'an*, it is not compulsory to divide the *zakat* fund equally among them. According to Al-Qaradawi (1999), if all the categories of *asnaf* require similar amount of *zakat* fund, then it must be divided equally among them. However, if some *asnaf* require more *zakat* than the others, they can be given more money from the *zakat* fund. He clarified that it is left to the *zakat* institutions or agents to distribute the fund to those *asnaf* whose needs are greatest. However, it is generally believed that the main priority of *zakat* fund must be given to the first two categories of *asnaf*; hardcore poor and poor (Al-Qaradawi, 1999; Hassan, 2010)

According to Abdul Rahman and Ahmad (2010), in general *zakat* distribution method is still focused on the periodical form of direct payment where *asnaf* is given *zakat* money monthly or annually. Nevertheless, many cases have shown that direct payments reducing *asnaf's* incentive to work and end up being dependent on *zakat* funds. Although direct payment of *zakat* is still acceptable especially for non-productive *asnaf* such as the disabled and elderly, it is recommended that *zakat* should be distributed in the form of capital finance to the poor and needy in order to encourage business activities among *asnaf*. In a long

<sup>4</sup> one who is appointed to collect *zakat*

<sup>5</sup> one who converts to Islam

<sup>6</sup> one who wants to free himself from slavery

<sup>7</sup> one who is in debt

<sup>8</sup> one who fights for the cause of Allah

<sup>9</sup> one who is stranded in journey

run, it is expected that the productive *asnaf* will be more independent, and able to support themselves and their families, thus escaping from the poverty. Moreover, in some countries such as Malaysia and Pakistan, *zakat* funds are also used to help the household dependants by sponsoring their school and university fees (Ahmed, 2004). It seems that these educational and training programmes are useful to prevent the *asnafs'* children from living in poverty in the future due to the lack of knowledge.

### III. ZAKAT PRACTICE DURING CALIPH'S RULING

The obligation to pay *zakat* on wealth was received by the Prophet Muhammad (pbuh) in 9 AH. Under the governance of Prophet Muhammad (pbuh) *zakat* funds was collected and distributed by the appointed *zakat* workers (*amil*). As one of the eligible *asnafs*, the *amil* were given a portion of the *zakat* funds. At this time, the *amil* used to go to the potential *zakat* payers, properly assessed their *zakatable* items, and collected the amount due to them (Hudayati&Tohirin, 2010; Qaradawi, 1973). Most of the *amil* appointed by the Prophet (pbuh) were retained by the first Caliph, Abu Bakar As-Siddiq. Under his ruling, Abu Bakar stressed the importance of *zakat* payment and he was recorded as saying:

*"If they withhold giving zakah even a little rein of a camel or a small baby sheep (that is due on them) I will fight them for it. Zakah is the obligation on properties. By god, I will fight whoever discriminates between prayers and zakah".*

(Hadith – Sahih Bukhari)

Later, under the reign of the second caliph, Umar bin Al-Khattab, a new method of *zakat* collections was introduced. Known as *al'ashir*, Umar set several check points on major highways, especially those coming from other countries. An appointed tax collector was allocated at each check point and *zakat* was collected from the Muslim traders. On the other hand, the non-Muslim traders were required to pay taxes on imports (Ahmed, 2004; Dogarawa, 2009; Qaradawi, 1999). And this practice continued throughout the early history of Islamic government (Ahmed, 2004). Besides *al'ashir*, Umar did also introduce the concept of *Bait-al-mal* or Public Treasury in order to manage the *zakat* and *waqf* funds in 15 AH. Moreover, he also extended the list of *zakatable* items to include some new sources of wealth that had been exempted under the governance of Prophet (pbuh) by applying *ijtihad*<sup>10</sup>. Some of the new items introduced are horses, lentils and chickpeas. The *ijtihad* was then followed by other caliphs and Islamic scholars. It is believed that under the good governance of Umar, there was so much prosperity that often it was hard to find an eligible recipient of *zakat* (Hudayati&Tohirin, 2010).

As discussed above, based on history, there are evidence that *zakat* is effective in eliminating poverty. A number of scholars claimed that during the period of Umar bin Al-Khattab (13-22H) and Umar bin Abdul Aziz (99-101H) poverty is completely eliminated (Ahmed, 2004; Hidayati&Tohirin, 2010; Md. Isa, 2011; Qaradawi, 1999). During this period, it is believed that *zakat* money could not be distributed in some regions due to the non existence of poor people. Referring to Ahmed (2004), under the ruling of Umar bin Al-Khattab, the Yemen governor, Mu'adh bin Jabal sent one-third of the *zakat* collection in a particular year to Umar bin Al-Khattab. Umar rejected the fund by saying, "I sent you to take from the rich and render it to the poor among them". Mu'adh later claimed that he could not find anyone who deserved the *zakat* money. In the following year, Mu'adh sent half of the *zakat* collection and similar conversation took place between them. Later, in the third year, he sent all the *zakat* collection to Umar and said, "This year I did not

<sup>10</sup> Rational thinking or deduction

find a single person who needs from me anything of the *zakat*". Similar scenario was found during the reign of Umar bin Abdul Aziz (Umayyads government) where an Egypt governor sent him a letter asking him on what to do with the proceeds of *zakat* funds as no deserving poor and needy was found in Egypt. According to Umar bin Abdul Aziz, the funds then shall be used to, "Buy slaves and let them free, build rest areas on the highways and help young men and women to get married" (Ahmed, 2004, p. 31). Thus, it seems that practically, *zakat* is efficient in combating poverty if being managed properly.

#### IV. ZAKAT PRACTICE IN MALAYSIA

The Federal Constitution of Malaysia (1957) proclaims Islam as the official religion of the federation. However, any issues related to Islamic laws and customs including *zakat* administration are under the jurisdiction of the respective states, which is the Sultans, except in Federal territory whereby the Islamic law and administration are governed by the Federal government (Ahmed, 2004; Hudayato&Tohirin, 2010; Mahamod, 2011; MdSaad& Abdullah, 2011). Moreover, the Sultan of each state is advised by a State Islamic Religious Council (Majlis Agama Islam Negeri, hereafter MAIN). Kelantan was the first state to establish its own MAIN known as "MajlisUgama Islam and IstiadatMelayu Kelantan" in 1915. This was followed by Terengganu, Pahang (1922), Perlis (1930), Johor (1934), Kedah (1936) and other states in Malaysia (Mahamaod, 2011). MAINs are responsible on all matters related to religion and each state has set up its *zakat* management institution. Table 1 below list all the Zakat Institutions (hereafter, ZI) and MAIN in Malaysia:

| States              | MAIN and ZI   |
|---------------------|---|
| Kelantan            | Majlis Agama Islam danAdatIstiadatMelayu                              |
| Terengganu          | Majlis Agama Islam danAdatIstiadatMelayu Terengganu                   |
| Pahang              | MajlisUgama Islam danAdatResamMelayu Pahang<br>PusatKutipan Zakat     |
| Perlis              | Majlis Agama Islam danAdatIstiadatMelayu                              |
| Johor               | Majlis Agama Islam Negeri Johor                                       |
| Kedah               | Majlis Agama Islam Negeri Kedah<br>Jabatan Zakat Kedah                |
| Selangor            | Majlis Agama Islam Selangor<br>Lembaga Zakat Selangor                 |
| Perak               | Majlis Agama Islam danAdatIstiadatMelayu                              |
| Negeri Sembilan     | Majlis Agama Islam Negeri Sembilan<br>Pusat Zakat Negeri Sembilan     |
| Melaka              | Majlis Agama Islam Melaka<br>Pusat Zakat Melaka                       |
| Penang              | Majlis Agama Islam NegeriPulau Pinang<br>PusatUrus Zakat Pulau Pinang |
| Wilayah Persekutuan | Majlis Agama Islam Wilayah Persekutuan<br>PusatPungutan Zakat         |
| Sabah               | Majlis Agama Islam Sabah<br>Pusat Zakat Sabah                         |
| Sarawak             | Jabatan Agama Islam Sarawak<br>TabungBaitulmal Sarawak                |

Table 1: List of MAIN and ZI in Malaysia

As different states have their own MAIN, there are differences in the interpretation and implementation of *zakat* in each state. Table 2 and 3 below summarizes the interpretation of *zakat* according to states in Malaysia and amount of *zakat* distributed according to the category of *asnafin* 2010.

| States              | Intrepretation of <i>Zakat</i>   |
|---------------------|--|
| Perlis and Perak    | A compulsory donation made by a Muslim from his property and income in accordance with Islamic law.  |
| Kelantan and Pahang | The tithe or crop payable annually under Islamic law in respect of paddy land.   |
| Kedah               | A gift required of a Muslim in accordance with Islamic law.  |
| Selangor            | A tithe of certain property, payable annually in accordance with Islamic law.  |
| Johor               | A tithe upon property, paid by a Muslim in accordance with Islamic law.  |
| Penang              | <i>Zakat</i> on certain property, which is payable annually in accordance with Islamic law.  |
| Malacca             | The tithe of certain property, payable annually in accordance with Islamic law   |
| Terengganu          | The tithe of paddy crop and livestock, such as cattle, goats and sheep, payable annually in respect of paddy planted and livestock reared, subject to the exemptions prescribed by this Enactment. |

Table 2: Interpretation of *Zakat* According to States in Malaysia (Nasir, 1999, p. 206).

| State / <i>Asnaf</i> | Hardcore Poor (RM 000) | Poor (RM '000) | Amil (RM '000) | Mu'allaf (RM '000) | Riqab (RM '000) | Gharmin (RM '000) | Fi-sabilillah (RM '000) | Ibnus Sabil (RM '000) |
|----------------------|------------------------|----------------|----------------|--------------------|-----------------|-------------------|-------------------------|-----------------------|
| <b>K. Lumpur</b>     | 36,908                 | 30,889         | 32,438         | 3,459              | 0               | 2,540             | 93,732                  | 575                   |
| <b>Selangor</b>      | 50,340                 | 76,863         | 42,117         | 19,957             | 2,455           | 29,106            | 108,304                 | 1,224                 |
| <b>Perlis</b>        | 860                    | 7,062          | 3,131          | 228                | 0               | 0                 | 19,449                  | 0                     |
| <b>Kedah</b>         | 2,578                  | 25,474         | 6,267          | 1,184              | 0               | 47                | 30,291                  | 221                   |
| <b>Penang</b>        | 2,949                  | 23,383         | 5,432          | 866                | 0               | 1,054             | 20,407                  | 261                   |
| <b>Perak</b>         | 35,570                 |                | 9,018          | 2,016              | 0               | 312               | 19,195                  | 682                   |
| <b>Kelantan</b>      | 43,182                 |                | 10,423         | 896                | 0               | 8                 | 9,397                   | 4                     |
| <b>Terengganu</b>    | 12,858                 | 21,947         | 7,342          | 1,803              | 20              | 371               | 17,260                  | 143                   |
| <b>Pahang</b>        | 6,065                  | 6,504          | 10,034         | 2,919              | 27              | 117               | 32,357                  | 580                   |
| <b>N. Sembilan</b>   | 1,339                  | 13,206         | 6,905          | 4,002              | 10,806          | 2,060             | 13,062                  | 360                   |
| <b>Johor</b>         | 13,201                 | 29,638         | 13,420         | 6,943              | 0               | 2,623             | 44,353                  | 130                   |
| <b>Melaka</b>        | 13,105                 | 1,121          | 5,132          | 1,719              | 0               | 3,449             | 6,859                   | 7                     |
| <b>Sabah</b>         | 9,586                  | 6,644          | 2,836          | 1,791              | 0               | 7                 | 5,154                   | 3                     |
| <b>Sarawak</b>       | 4,920                  | 2,729          | 3,946          | 402                | 0               | 0.58              | 11,922                  | 3                     |

Table 3: Total *zakat* distribution to *asnaf* by state (Federal Territory *Zakat* Collection Centre, 2010)

Referring to Table 3, it shows that the practical distribution of *zakat* among *asnafs* is different according to states. Perak and Kelantan for instance do not distinguish between hardcore poor and poor. On the other hand, only Selangor, Negeri Sembilan, Terengganu and Pahang distributed *zakat* to *riqab*. According to Mahamud (2011), in other states, *riqab* was defined as a slave while in those 4 states, broader definition of *riqabis* used. In these states, *Zakat* for *riqab* means “freeing a Muslim from physical and mental oppression and humiliation by certain individuals” (p. 79). Moreover, Perlis distributed *zakat* to only 5 categories of *asnafs*, namely, hardcore poor, poor, *amil*, *mu'allaf*, and *fi-sabilillah*. Looking at the amount of *zakat* distributed among *asnafs*, it seems that different states have different priorities in distributing *zakat*. From Table 3 above, 4 states namely; Perak, Kelantan, Terengganu, and Sabah allocated more than 50% of the *zakat* funds to the hardcore poor and poor. In contrast, Perlis and Pahang distributed more funds to the *fi-sabilillah*. While majority of the states did not allocate *zakat* for *riqab*, Negeri Sembilan spent about 20% of their *zakat* funds to this category of *asnaf*.

This scenario has led to the issues of *Al-Awlawiyyat* (prioritization) in distributing *zakat* money. Consistent with MdSaad and Abdullah (2011), it was argued that for certain states, priority is not given to the poor and hardcore poor categories of *asnaf*. It seems that this practice is inconsistent with the main objectives of *zakat* which is to alleviate poverty and Qaradawi's opinion that priority of *zakat* distribution should be to the hardcore poor and poor *asnaf*. Therefore, it was suggested that detailed investigation should be made by ZI in Malaysia to determine whether the needs of the hardcore poor and poor have been satisfied before the fund is distributed to other category of *asnaf*. Moreover, MdSaad and Abdullah (2011) suggested that ZI should minimize *zakat* distribution to “*fi-sabilillah*” *asnafas* “any shortage/deficit in the latter *asnaf* (i.e. *fi-sabilillah*) needs can always be offset using the *waqf* funds.

| States      | Collection    |              | Total       | Distribution | %       |
|-------------|---------------|--------------|-------------|--------------|---------|
|             | Zakat al-fitr | Zakat al-mal |             |              |         |
| K. Lumpur   | 7,040,649     | 275,635,425  | 282,676,074 | 200,541,409  | 70.94%  |
| Selangor    | 17,333,281    | 319,601,241  | 336,934,522 | 330,364,503  | 98.05%  |
| Perlis      | 912,940       | 37,178,566   | 38,091,506  | 30,730,256   | 80.67%  |
| Kedah       | 5,504,906     | 71,442,234   | 76,947,140  | 66,061,795   | 85.85%  |
| Penang      | 3,998,526     | 49,240,607   | 53,239,133  | 54,352,513   | 102.09% |
| Perak       | 7,663,986     | 61,975,515   | 69,639,501  | 66,793,034   | 95.91%  |
| Kelantan    | 7,592,424     | 62,780,905   | 70,373,329  | 63,909,067   | 90.81%  |
| Terengganu  | 5,566,841     | 70,881,037   | 76,447,878  | 61,744,662   | 80.77%  |
| Pahang      | 6,300,000     | 74,574,870   | 80,874,870  | 58,604,106   | 72.46%  |
| N. Sembilan | 3,771,307     | 46,429,815   | 50,201,121  | 51,740,273   | 103.07% |
| Johor       | 13,140,920    | 109,195,112  | 122,336,032 | 110,308,434  | 90.17%  |
| Melaka      | 3,144,564     | 30,867,207   | 34,011,770  | 31,392,559   | 92.30%  |
| Sabah       | 7,188,953     | 25,667,797   | 32,856,750  | 26,021,789   | 79.20%  |
| Sarawak     | 3,272,479     | 35,870,576   | 39,143,056  | 23,922,812   | 61.12%  |

Table 4: Total collection and distribution of *zakat* based on states (Federal Territory *Zakat* Collection Centre, 2010)

Table 4 above summarizes the total collection and distribution of *zakat* based on states in Malaysia. On average, only 86% of *zakat* collected in 2010 were distributed in the same period. Penang and Negeri

Sembilan show more than 100% distribution of *zakat*. This might occur as some amount of *zakat* collected the year before was not distributed. On the other hand, the distribution percentage of *zakat* in Sarawak, Kuala Lumpur, and Pahang was quite alarming at 61%, 71%, and 72% respectively. According to Mohd Nor et al (2011), one of the main reasons of low percentage of *zakat* distribution is due to the practice of paying *zakat* at the end of the year. It was reported at certain states; about 50% of the *zakat* was collected in the final weeks of a year. Due to the time constraint and under staffing, these funds were not distributed in the same period. However, it is expected that these unallocated funds to be distributed to the eligible *asnafs* in the following year.

Previous studies on the effectiveness of *zakat* in alleviating poverty in Malaysia have highlighted a few issues. AbRahman et al. (2012) for example, highlighted the issues of inefficiency of *zakat* distribution thus affecting the objective of combating poverty. They argued that studies found that there were bureaucracy problems in *Zakat* Institutions in Malaysia that would slow down the application process such as the requirement for students to make an application every year to ZI although their application has been approved during their first year. Besides distribution process, inefficient in collecting *zakat* has also been highlighted. Referring to PPZ/MAIWP (2010) report, only 160,000 out of approximately 2 million Muslims population in Selangor (8%) are paying *zakat*. Therefore, it was suggested that ZI need to be more proactive in raising awareness among prospective *zakat* payers instead of waiting at the *zakat* counters (AbRahman et al., 2012).

Another study by Md. Ramli et al. (2011) also highlighted the issue of *asnaf* attitude in receiving capital aid from *Zakat* Institution in Malaysia. They found that some of the recipients of the capital aid did not possess the right behavior to become entrepreneurs thus affecting their business performance. This study is consistent with Hussin and Ahmad (2010). They reported that overall, only 6.9% out of 537 respondents that received capital aid from *Zakat* institutions in Selangor and Kuala Lumpur managed to pass the *Kifayah* level of poverty. The study further explained that the reason behind the high percentage of failure is mainly due to the amount of capital aid received from the *Zakat* institutions. They found that the percentage of success is highest if the amount of capital received is sufficient.

Furthermore, Wahid et al. (2004) studied on the impacts of *zakat* to the quality of life of the *asnafs* by examining their satisfaction on the *zakat* received. It was found that the respondents were generally not satisfied with the *zakat* distribution as education and social involvement were the only factors that the respondents were satisfied with relative to other quality of life variables such as transportation, communication, health, and shelter. On the other hand, Ahmad et al. (2006) examined the satisfaction levels of *zakat* payers in Malaysia. Based on the survey conducted, it was established 57% of 753 respondents were not satisfied with the current distribution of *zakat* in Malaysia which significantly affect their payment of *zakat* to *Zakat* Institutions. Consistent with Ahmed et al. (2006) findings, Wahid et al. (2009) highlighted the issues of transparency and unclear method of *zakat* distribution as the main reasons of dissatisfaction towards *Zakat* Institutions in Malaysia.

## V. RECOMMENDATIONS

Although many agrees that *zakat* has huge potential in alleviating poverty, current situation and research shows that a lot of issues need to be resolved in order to meet the objective. One of the suggestions forwarded by researchers to resolve those issues is collaboration between ZI and other agencies such as NGOs and corporations. Latif (2001) for instance, claimed ZI or MAIN cannot play an effective role in eliminating poverty by using *zakat* funds solely due to limited number of *zakat* allocated for that purpose.

Therefore, it was suggested that the main source of revenue for alleviating poverty should come from the socio-economic programmes conducted by the government. He also added that Zakat Institutions need to coordinate with other government agencies, MAINs and NGOs such as AIM, Tekun, and “YayasanBasmikemiskinan”. Similar suggestion was proposed by Md. Hassan et al. (2012) where a new model of “Microfinance Modus Operandi for Zakat Institutions” has been forwarded. It was expected that by collaborating with the microfinance institutions such as AmanahIkhtiar Malaysia (AIM), the ZI will be more efficient in distributing *zakat* funds.

As MFI such AIM and ZI has similar goals and mission, which is to help the poor and needy, the collaboration between both parties is expected to improve the efficiency of ZI in distributing the *zakat* fund in the form of capital assistance to the productive *asnaf*. This collaboration may involve in term sharing of knowledge, expertise, and resources. For instance, ZI may entrust AIM to provide technical knowledge and guidance to those *asnaf* who planned to start up a business. As AIM has branches all over Malaysia and actively meeting their customers (*sahabat*) every week, ZI may require those *asnaf* to attend the meeting for knowledge sharing and monitoring purposes.

## VI. CONCLUSION

*Zakat* is declared as the third of five “pillars” of Islam, and it is payable on the assets such as gold, livestock, agricultural products, and funds. Consistent with the brotherhood concept in Islam, the requirement to pay *zakat* is also closely related with the idea of equality and justice that lies under the Islamic principles. The main purpose of *zakat* is to support the less fortunate group in the society such as the poor, the needy, the wayfarer, or the heavily indebted with the hope that this group of people will at least have the basic requirement to lead a normal life, thus eliminating poverty. It is generally believed that *zakat* plays an important role in term of economy, moral and social of a society.

History proves that with proper management, *zakat* is capable to eliminate poverty. During the reign of Umar bin Al-Khattab and Umar bin Abdul Aziz, it was reported that there was so much prosperity that often it was hard to find an eligible recipient of *zakat*. However, with the fall of Islamic Empire and the increasing European influence during the colonialism period, *Zakat* Institutions have lost their glory.

In Malaysia, although, MAINs and ZI have been in existence since 1915, there are still a lot of issues hindering the potential of *zakat* in combating poverty. Among the issues that need to be addressed by the relevant authority is the effectiveness of the *zakat* distribution to the eligible *asnafs* and transparency of the *Zakat* Institutions. As *Zakat* Institutions are now moving towards providing the capital aid to the productive *asnafs*, the reasons behind current low performance of *asnafs*’ business also need to be thoroughly examined. Due to the limited resources in ZI, therefore this paper suggests that ZI need to collaborate with other agencies such as government agencies, NGO, microfinance institutions, business corporations, and tertiary institutions to further improve their efficiency. The collaboration may revolve in vast areas including business projects, financial supports, management trainings, monitoring, and research conducts. For instance, a business corporation may supply raw materials to *asnaf*’s business and a tertiary institution may conduct training on business management as part of their Corporate Social Responsibility (CSR). By collaborating with these agencies, it is expected that the issues of inefficiency, resources limitation, understaffing, and lack of expertise in ZI will be addressed and reduced.

**REFERENCES:**

- Abdul Rahman, R. & Ahmad, S. (2010). *Pengukuran Keberkesanan Agihan Zakat: Perspektif Maqasid Al-Syariah*. Paper presented at Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy.
- Abdul-Rahman, A. R. & Goddard, A. (1998). An interpretive inquiry of accounting practices in religious organisations. *Financial Accountability and Management*, 14(3), 183-201.
- Ahmed, H. (2004). *Roles of Zakah and Awqaf in Poverty Alleviation*. Jeddah: Islamic Development Bank.
- Dogarawa, A. B. (2009). *Poverty Alleviation through Zakah and Waqf Institutions: A Case for the Muslim Ummah in Ghana*. Paper presented at the First National Muslim Summit, Ghana, 3 October 2009.
- Gambling, T. E. & Karim, R. A. A. (1986). Islamic and 'social accounting'. *Journal of Business Finance & Accounting*, 13(1), 39-50.
- Hamid, S., Craig, R. & Clarke, F. (1993). Religion: A confounding cultural element in the international harmonization of accounting? *ABACUS*, 29(2), 131-148.
- Hassan, M. K. (2010). *An Integrated Poverty Alleviation Model Combining Zakat, Awqaf and Microfinance*. Paper presented at Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi.
- Hidayati, A. & Tohirin, A. (2010). *Management of Zakah: Centralised vs Decentralised Approach*. Paper presented at Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi.
- Lewis, M. K. (2001). Islam and accounting. *Accounting Forum*, 25(2), 103-127.
- Mahamud, L. H. (2011). *Alleviation of Rural Poverty in Malaysia: The Role of Zakat, A Case Study*. Unpublished doctoral dissertation. The University of Edinburgh. Retrieved April 25, 2012, from <http://www.era.lib.ed.ac.uk/handle/1842/5554>
- Md Isa, Y. Z. (2011). *The Relationship Between Poverty Elimination and Asnaf Entrepreneurial Scheme*. Unpublished Masters Theses. Universiti Utara Malaysia.
- MdSaad, N. & Abdullah, N. (2011). *Is Zakat Capable of Alleviating Poverty? An Analysis of the Distribution of Zakat Fund in Malaysia*. Paper presented at World Zakat Conference 2011.
- Mirza, M. & Baydoun, N. (1999). Do Islamic societies need their own accounting and reporting standards? *Journal of the Academy of Business Administration*, 4(2), 39-45.
- Mohamed Ibrahim, S. H. (2001). *Islamic accounting – Accounting for the New Millennium?* Paper presented at the Asia Pacific Conference. Kelantan, Malaysia: International Islamic University Malaysia. Retrieved September 2, 2007, from <http://www.iiu.edu.my/iaw>
- Mohammed, J. A. (2007). *Corporate Social Responsibility in Islam*. Unpublished doctoral thesis, Auckland University of Technology. Retrieved September 14, 2008, from Dissertations and Thesis Databases.
- Nasir, N. M. & Zainol, A. (2007). Globalisation of financial reporting: an Islamic focus. In Godfrey, J. M. & Chalmers, K. (Eds.), *Globalisation of accounting standards* (pp.261-274). Cheltenham, UK: Edward Elgar.
- Qaradawi, Y. (1999). *Fiqh al zakah (Volume 1): A comparative study of zakah, regulations and philosophy in the light of Quran and Sunnah*. Saudi Arabia: King Abdul Aziz University.
- Sadeq, A. H. (1997). Poverty Alleviation: An Islamic Perspective. *Humanomics*, 13 (3), 110 – 134.
- Sulaiman, M. (2003). The influence of riba and zakat on Islamic accounting. *Indonesian Management and Accounting Review*, 2 (2), 149-167.
- United Nations. (2012). *Millennium Development Goals*. Retrieved February 15, 2012, from <http://www.un.org/millenniumgoals/poverty.shtml>
- World Bank. (2007). *Malaysia and the Knowledge Economy: Building a World-Class Higher Education System*. Retrieved February 29, 2012, from <http://siteresources.worldbank.org/INTMALAYSIA/Resources/Malaysia-Knowledge-Economy2007.pdf>
- White, L. S. (2004). The influence of religion on the globalization of accounting standards. Retrieved September 1, 2007, from <http://cbfa.org/papers/2004conf/White.doc>