



ZAKĀH COLLECTION AND DISTRIBUTION
FRAMEWORK IN FEDERAL TERRITORY: A STUDY
ON SELECTIVE ISLAMIC BANKING INSTITUTIONS

BY

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ABSTRACT

Zakāh is one of the pillars of Islam, and it is the financial instrument and resource of development to Muslim's economy. One of the institutions that runs business based on *Sharī'ah* is Islamic Banking Institutions. The management of *zakāh* in each state has to be in line with *Sharī'ah*, and it is observed that the practice of *zakāh* collection and distribution in Federal Territory is complied with the principle of *Sharī'ah*. Through examinations on the *zakāh* collection and distribution framework in Federal Territory, Malaysia, we can expect that the collection and distribution figures will continue to increase in subsequent years from the efforts taken by *zakāh* institutions. Thus, this paper will review and analyze the *zakāh* collection and distribution framework in Federal Territory, focuses on the selective Islamic Banking Institutions based on observations and come out with some recommendations for better improvement which are more suitable and can be implemented comprehensively. Comments and suggestions that have been presented are intended to create a better and high quality services for *zakāh* institutions in order to collect and distribute *zakāh* for Muslim community who are in need.

خلاصة البحث

الذكاة هي ركن من اركان الإسلام. وإنه هو أداة مالية وتطوير الاقتصادية الإسلامي. واحدة من المؤسسات التي تتعامل على اساس الشريعة هي المؤسسات المصرفية الإسلامية. وينبغي أن, تحدد إدارة الزكاة في كل بلد وقفا للقانون وذلك من خلال الملاحظة, جمع وتوزيع بولاية برسكوتوان كوالا لمبور, الإتحادية الامتثال لمبادئ المتوافقة مع الشريعة الإسلامية. ومن خلال العمل البحثي جمع وتوزيع الزكاة بولاية برسكوتوان كوالا لمبور, يمكننا ان نتوقع جمع وتوزيع الزكاة سوف تستمر في الزيادة كل عام من تزاوله المؤسسات الخيرية. وذلك, تهدف هذه الورقة إلى تحليل الإطار عن جمع وتوزيع الزكاة بولاية برسكوتوان كوالا لمبور, التركيز على المؤسسات المصرفية الإسلامية المختارة. تعليقات وإقتراحات للتحسين وتهدف إلى إنشاء الخدمات وفعالية أفضل, خاصة من حيث جمع وتوزيع الزكاة في المجتمع الإسلامي يحتاج حقا.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science (Islamic Banking and Finance).

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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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This work is dedicated to my beloved husband, parents, and my siblings for their moral support, assistance, advice, encouragement and prayers. It is also dedicated to those who are struggling to provide better services in zakāh institutions to be in line with Islamic principle and for those who are related in collection and distribution of zakāh in Malaysia . May Allah Almighty bless them all.

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Administration of Islamic Law (Federal Territories) Act 1993 (Act 505)
Federal Constitution 1957 (Reprint 2010)
Financial Procedure Act 1957(Reprint) (Act 61)
Islamic Banking Act 1983 (Act 276)
Personal Data Protection Act 2010 (Act 709)

LIST OF ABBREVIATIONS

ATM	automated-teller machine
BIMB	Bank Islam Malaysia Berhad
EPF	Employers' Provident Fund
JAWHAR	Jabatan Wakaf Zakat dan Haji
KWSP	Kumpulan Wang Simpanan Pekerja
MAIWP	Majlis Agama Islam Wilayah Persekutuan
MPAZ	Manual Pengurusan Agihan Zakat
PPZ-MAIWP	Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan
SIRC	State Islamic Religious Council

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Zakāh is not merely a charity left to individual but it also depends on institutions. *Zakāh* institutions which are responsible for collection and distribution of *zakāh* can play an important role as they are the integral part of the Islamic socio-economic system. The mechanism of collection and distribution of *zakāh* for every state is different depending on their legislation. To measure the development of *zakāh* collection and distribution, it is crucial to analyze and review its framework in each of institutions.

Therefore, this study is to analyze and review the *zakāh* collection and distribution framework in Federal Territory focuses on Federal Territory Islamic Religious Council's *Zakāh* Collection Centre ("PPZ-MAIWP") and selective Islamic Banking Institutions ; Bank Islam Malaysia Berhad ("BIMB"), Bank Rakyat and Maybank Islamic Berhad ("Maybank").

As Muslims are aware of their obligation to pay *zakāh*, it is observed that *zakāh* collection has been increasing continuously and steadily from year to year. However, in such circumstances, they are unable to settle their dues as the *zakāh* payment counters only operate during office hours on weekdays. Thus, since August 2011, the Federal Territory Islamic Religious Council's *Zakāh* Collection Centre (PPZ-MAIWP) launched the *zakāh* online payment system.¹ The mechanism of collection and distribution of *zakāh* for every state in Malaysia are different depending on their

¹ "More zakat collection with online payment", *Bernama*, 12 November, 2012, <<http://web10.bernama.com/hpm08/news.php?id=708726>> (accessed April 09, 2016)

legislation. *Zakāh* is the responsibility of the State Islamic Religious Council (SIRC) or also known as *Majlis Agama Islam Negeri* in which SIRC will manage matters related to the religion of Islam including *zakāh*. As mentioned in the Federal Constitution, it gives full authority to every SIRC to administer and manage the *zakāh* whenever it is deemed appropriate.

From the *zakāh* management aspect, for instance, MAIWP is one of the states with highest *zakāh* collection and distribution. The financial strength which is also derived from the *zakāh* pool enables MAIWP to plan and execute various programmes and activities which are beneficial to the Muslims in the Federal Territory and in certain cases, the assistance is also extended to the Muslim communities beyond the boundaries of Federal Territory and our country, Malaysia². In view of that, MAIWP will make sure that the *zakāh* pool will be carefully distributed to the group as determined by *syārā'*.

1.2 PROBLEM STATEMENT

Muslims are obliged to pay *zakāh* as it is a major pillar in Islam. In order to manage *zakāh*, it is crucial to analyze and review the framework of each *Zakāh* Institution. In fact, the service of collection and distribution should be one of the enhancements of other *Zakāh* Institutions. The problem of the study is to review and investigate on how *Zakāh* Institutions in Federal Territory plays an important role to collect and distribute *zakāh* to the needy. So far, there were studies that have been conducted specifically on legal and *Shari'ah* framework of *zakāh* in Malaysia. However, there is no any study on *zakāh* collection and distribution framework in Federal Territory compared to the

² MAIWP Annual Report 2008, p.2

Islamic banking institutions. *Sharī'ah* framework should be done in these *Zakāh* Institutions in order to improve their quality in service. Therefore, this study in the meantime is aimed to provide ways of improvement of service quality by the *Zakāh* Institutions.

1.3 PURPOSE OF THE STUDY

The research sought to analyze and review the *zakāh* collection and distribution framework in Federal Territory focuses on *Majlis Agama Islam Wilayah Persekutuan* (MAIWP) and selective Islamic banking institutions; Bank Islam Malaysia Berhad (BIMB), Bank Rakyat and Maybank Islamic Berhad.

It is hoped that this study can help *Zakāh* Institutions in improving their quality and services provided. This is very crucial in order to sustain and manage *zakāh* collection and distribution in future. Results of the study may be a platform for further research by those Islamic banking institutions that are interested in improving the business.

1.4 SCOPE AND LIMITATION OF STUDY

This study focuses only on the collection and distribution framework of *zakāh* in Federal Territory. This state is selected because it is one of the top states with the highest *zakāh* collection in Malaysia³. Furthermore, the *zakāh* collection and distribution framework in Federal Territory is well established.

³Abd Halim Mohd Noor, Mohd Saladin Abdul Rasool, Pengurusan Agihan Zakat in *Fiqh Zakat Malaysia* edited by Hasan Bahrom, Abd Halim Mohd Noor, Rawi Nordin (Kuala Lumpur: Pusat Penerbitan Universiti (UPENA) & Institut Kajian Zakat Malaysia (IKaZ), UiTM,2011), p. 335

Also, this study focuses on the selective Islamic banking institutions in Federal Territory that is Bank Islam Malaysia Berhad (“BIMB”), Bank Rakyat and Maybank Islamic Berhad (“Maybank”). BIMB was selected in this paper because it is the first *Shari’ah* based banking institution in Malaysia. Bank Rakyat was selected because the nature of Bank Rakyat itself is the cooperative bank, whereas Maybank Islamic Berhad was selected in this research paper because it is the biggest Islamic banking institution in Malaysia.

The data of this study is limited from 2009 until 2013. At the point of writing, the data for 2014 onwards are not available, therefore the 2013 data is the latest data available at the time this study was conducted. The latest data available would give a more precise and better results that reflects the current *zakāh* collection and distribution framework scenario in the state and institutions mentioned above.

1.5 RESEARCH OBJECTIVES

The study aimed to achieve the following objectives:

- 1- To examine whether the *zakāh* collection and distribution in Federal Territory is in line with the *Shari’ah* framework.
- 2- To compare the collection and distribution framework of MAIWP and Islamic banking institutions.
- 3- To propose recommendations in order to breach the gap between the practice of both MAIWP and selective Islamic banking institutions.

1.6 RESEARCH QUESTIONS

The following research questions are formulated in order to guide the research in achieving an effective outcome:

1. What are the differences between *zakāh* collection and distribution framework in MAIWP compared to Islamic banking institutions?
2. To what extent the *zakāh* collection and distribution in Federal Territory has achieved the *Shari'ah* framework?
3. Does the service provided by *Zakāh* Institutions in Federal Territory is sufficiently good?

1.7 RESEARCH METHODOLOGY

This research used a qualitative research design that focuses on exploring and understanding the particular problems and issues in the form of interpretive inquiry⁴. This research mainly involves library related materials such as books, references, journals, articles, annual reports and newspapers that are obtained either in hardcopy or via websites.

Annual reports that are used in this research are the annual reports from *Majlis Agama Islam Wilayah Persekutuan* (MAIWP), *Pusat Pungutan Zakat* (PPZ), Bank Islam Malaysia Berhad (“BIMB”), Bank Rakyat and Maybank Islamic Berhad (“Maybank”) from 2009 until 2013. All of these reports are retrieved from their websites respectively for data collection purposes. Since this study focuses more on

⁴ Creswell, John. W., *Research Design: Qualitative, Quantitative and Mixed Methods Approaches* (Thousand Oaks: Sage Publications, 2009), p.4, 176.

Shari'ah framework, other sources that are relevant such as Enactment, fiqh books, *mawsū'ah* (dictionary) and *tafsīr* (commentary) will be used as references as well.

All of the Qur'ānic verses in this research paper are translated into English using the translation of *Tafsir Ibn Kahtir* (Abridged) by Muhammad Anis Gad Khalil while some Arabic books that have their English translations are referred using both Arabic and English versions such as *fiqh al-zakāh* by al-Qardhāwī and its translation by Monzer Kahf; and also *al-amwāl* by Abu ^{Ubayd} al-Qāsim and its translation by Noor Muhammad Ghiffari. In addition, a number of *tafsīr* (commentary) of the Qur'ān are referred to such as *tafsīr al-ṭabarī* by 'Imām al-Ṭabarī, *ahkām al-qur'ān* by 'Ibn ^{Arabi}, *al-jāmi' li'ahkām al-qur'ān* by 'Imām al-Qurṭubī and others.

1.8 SIGNIFICANCE OF STUDY

Although the legal framework has been included in the *zakāh* collection and distribution, the *Shari'ah* framework should also be involved in this scope of study since more and more research of different fields and sectors are conducted regarding *zakāh* collection and distribution framework in Malaysia, especially Federal Territory and Islamic banking institutions. It is acknowledged that there are previous *Shari'ah* and legal frameworks which have been done on the subject of *zakāh* collection and distribution; but as the practice and operation of the *zakāh* institutions in Malaysia are currently evolving; more researches are continuously required especially through Islamic banking institutions in order to ensure that the practice and operation are within the right track.

Therefore, this study will significantly help the *zakāh* institutions in managing the system of *zakāh* properly whether it is beyond the States or Islamic banking institutions. The writer strongly believes that this study could contribute more to the better improvement of *zakāh* collection and distribution framework in the states mentioned together with the Islamic banking institutions in Malaysia.

Therefore, this study which relates to *Sharī'ah* framework and focuses more on Islamic banking institutions could help to complement the scope of framework research in Malaysia concerning the topic of *zakāh* and at the same time widening the area of study regarding the implementation of *zakāh* collection and distribution framework from *Sharī'ah* perspective.

1.9 LITERATURE REVIEW

The purpose of this section is to review the available literatures that are related to this study. It focuses on the review of *zakāh* collection and its framework, and the *zakāh* collection and distribution in Malaysia. This review brings forward some of the major findings regarding this matter.

1.9.1 The review of *zakāh* and its framework

The term of *zakāh* has been defined by thousands of books. There are three different connotations in the term of *zakāh* definition, which is linguistic, theological and legal point of views⁵. From the perspective of linguistic, *zakāh* has two meanings that is first, it means cleansing or purification of something from dirt or filth and second, *zakāh* means praise, growth and increase. Theologically, *zakāh* means spiritual

⁵ Muhammad, Akbar, "A note on the Concept of *Zakāh* and Taxation", in *Some Aspect of the Economics of Zakāh*, edited by M.Raquibuz Zaman, (Indiana: American Trust Publications, 1980),p.70

purification resulting from giving of *zakāh*. From legal view, *zakāh* means transferring ownership of specific property to specific individuals under specific conditions. According to Sayyid Sabiq⁶, in general, *zakāh* is “that portion of a man’s wealth is designated for the poor”. According to Qardhawi⁷, which refers to Lisan al Arab, the term *Zakāh* is pure, grow and laudable, this term is used in Al-Quran and Hadith.

Zakāh is mentioned in the Quran together with other terms such as *sadaqa* that also carries the connotation of giving and charity. It is one of the fundamental obligations and form of worship (*Ibadah*) of Islam as Allah commanded in the *Qur’an*

Sūrah al-Hajj, verse 78

فَأَقِمْ وَجْهَكَ لِلدِّينِ حَنِيفًا ۚ فِطْرَةَ اللَّهِ الَّتِي فَطَرَ النَّاسَ عَلَىٰ سَبِيلٍ مَّبْرُورًا ۗ
 ط ۗ فَاقِيمُوا الصَّلَاةَ وَآتُوا الزَّكَاةَ وَاعْتَصِمُوا بِاللَّهِ هُوَ مَوْلَانَكُمْ ۗ

“...so establish Salat and give *Zakāh* and hold fast to Allah...”

Although *zakāh* has always been mentioned together with salat (prayers) in the *Qur’an*, salat is on specific to the worship, which merely involves the relationship between a servant and his God, whereas *zakāh* has other aspects that linked with the relationship between human beings. This is because by paying *zakāh*, a Muslim is giving a portion of his wealth in order to satisfy the need of the *zakāh* recipients.

The importance of *zakāh* as the third pillar of Islam, as stated in the *Qur’an*, is coherently corroborated by the hadiths of the Prophet Muhammad (peace be upon him). For example, in one hadith, the Prophet (peace be upon him) assured that *zakāh* is an essential part of Islam as an integral whole. Without *zakāh*, even salat, fasting

⁶ Sayyid Sabiq, *Fiqh us-Sunnah*, translated from Arabic by Khokar, ‘Abdul-Majid, Dabas, Muhammad Sa’eed, and M.zarabozo, Jamal al-Din, (Indiana: American Trust Publications, 1991),p.2

⁷ Qaradawi, Yusuf (1999). *Fiqh al-zakat-A Comparative Study of Zakah, Regulations and Philosophy in The Light of Quran and Sunnah*, Kingdom of Saudi Arabia, Jeddah : King Abdul Aziz University.

and faith lose their credibility. The Prophet (peace be upon him) said: “(The superstructure of) Islam is raised on five pillars; the oneness of Allah, the establishment of salat, the payment of *zakāh* and the fasting of Ramadhan and then Hajj”⁸.

Azeez⁹ defined *zakāh* as “that portion of a man’s wealth is designated for the poor” *Zakāh* is differ from the other pillars, where *zakāh* is not merely covers the religious obligations aspect, but also the other aspects such as social, economic, education and welfare. *Zakāh* distribution in the form of aids and assistance programmes has been introduced alongside the other established distributions of living allowances, medical aid, shelter aid and the like as mentioned by Patmawati¹⁰. These aids and assistance would be a platform for the recipients who are in need in order to improve their socio economic condition of Muslim communities.

The institutions of *zakāh* are among several instruments instituted by Islam to combat and enhance welfare in society. Narrow interpretation of the *zakāh* principles has limited the modes of distribution to the rightful recipients. The majority of the classical jurists view that payment must be made the moment that *zakāh* becomes obliged upon the owners of the zakatable wealth. As a result of this principle, *zakāh* is most often disbursed to fulfill the immediate needs of the recipients.

Some Muslim scholars insist that the practice of distributing *zakāh* is not only to fulfill the basic need of recipients, but it is better to diversify the methods of

⁸ Imam Muslim, *Sāhih Muslim*, translated by Siddiqi, Abdul Hamid, Hadith No.16 (Delhi:Adam Publishers & Distributors, 1999), vol.1 part 1,13. See also al-Bukhāri, *Sāhih al-Bukhāri*, translated by Muhamad Muhsin Khan, Hadith No.1395 (Riyadh:Darussalam, 1997), vol.2, 276

⁹ Azeez, W. (2003), “*Zakat as the Islamic Social Insurance*”, *Al-Hadarah: LASU Journal of Arabic and Islamic Studies*, 6,30-38

¹⁰ Patmawati Ibrahim. (2008). *Pembangunan ekonomi melalui agihan zakat: Tinjauan empirical* Shariah Journal,16 (2).

managing *zakāh*. Based on al-Jarhi, Zarqa¹¹, this is to ensure that the benefits of *zakāh* increase from time to time and fulfill the immediate needs of the recipients. As *zakāh* as a major source of Muslim revenue should not be a limited distribution to fulfill the immediate needs of the recipients only, but at the same time invested for their future benefits.

1.9.2 *Zakāh* collection and distribution in Malaysia

As *zakāh* is one of the essential requirements in order to build up the Muslim society, Malaysia as an Islamic country is also responsible to uphold *zakāh*, and there were many studies done on *zakāh* in Malaysia. For example, there were attempts to propose for the integration of *zakāh* into the mainstream economy such as studies conducted by Abdul Rahim¹², Anita, Wan Noor Hazlina, Norudin and Kamaruzaman¹³. Nik Mustapha¹⁴ wrote a paper regarding the overall *zakāh* system in Malaysia including *zakāh* collection and distribution, problem faced and recommendations. However, there are still some recommendations that can be implemented in order to improve the current *zakāh* system in Malaysia. Mohammad Yusoff and Sofrina¹⁵ wrote that *zakāh* distribution has the ability to improve and stimulate the growth of economy. It was proven in their empirical study conducted in the Federal Territory of Malaysia.

¹¹ Al-Jarhi, M.A. and M.A. Zarqa, 2007. *Redistributive Justice in a Developed Economy: An Islamic Perspective*. In *Advances in Islamic Economics and Finance*, Eds., Iqbal, M. et al. Jeddah: Islamic Development Bank, p.43,44

¹² Abdul Rahim Abdul Rahman, “*Pre-Requisites for Effective Integration of Zakah into Mainstream Islamic Financial System in Malaysia*”, *Islamic Economic Studies*, Vol.14, No.1 & 2, (August 2006 and Jan, 2007):91-107

¹³ Anita Md. Shariff, Wan Noor Hazlina Wan Jusoh, Norudin Mansor and Kamaruzaman Jusoff, “A Robust Zakah System: Towards a Progressive Socio-Economic Development in Malaysia”, *Middle East Journal of Scientific Research*, Vol.7, No.4 (2011):550-554

¹⁴ Nik Mustapha Nik Hassan, “*Zakat in Malaysia-Present and Future Status*”, *Journal of Islamic Economics*, vol.1, no.1 (1987), pp.47-75

¹⁵ Mohammad Yusoff & Sofrina Densumite. (2012). Zakat Distribution and Growth in the Federal Territory of Malaysia. *Journal of Economics and Behavioral Studies*, vol.4, no.8, p.456