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ZAKĀT DISBURSEMENT EFFICIENCY – A
COMPARATIVE STUDY OF ZAKĀT INSTITUTIONS
IN MALAYSIA

BY

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INTERNATIONAL ISLAMIC UNIVERSITY
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ABSTRACT

The study aims to measure and analyze *zakāt* disbursement efficiency for the *zakāt* institutions in Peninsular Malaysia and identify the factor(s) that influence the efficiency. Seven *zakāt* institutions were chosen for the study. There are two approaches of efficiency analysis in the study, namely (i) *zakāt* disbursement efficiency measurement and (ii) identification of factor(s) that influence the *zakāt* disbursement efficiency of the *zakāt* institutions. In the first approach, there are three efficiency measures being examined applying ratio analysis, namely Disbursement Efficiency (D_E), Cost Efficiency (C_E) and Time Efficiency (T_E). On average, Selangor and Kedah are the most efficient institutions in terms of D_E , Kelantan perform the most efficiently in terms of C_E while Selangor, Negeri Sembilan and Penang perform the best in terms of T_E . Throughout the six-year period (2000 to 2005), T_E for all institutions improved consistently until 2005, D_E had improved steadily for the first four years but declined slightly for the next two years, while C_E had improved significantly for the first three years and declined slightly before it recovered in 2005. Secondly, four possible factors, namely (i) number of *zakāt* disbursement personnel; (ii) number of *zakāt* disbursement institution branches; (iii) corporatization status of the *zakāt* institutions and (iv) use of comprehensive computerized *zakāt* disbursement system were regressed against the three efficiency measures (i.e. D_E , C_E and T_E) which have been measured earlier, in order to identify their influence on the *zakāt* disbursement efficiency measures. The regression results show that the number of *zakāt* disbursement personnel is positively associated to D_E and negatively associated to C_E and T_E ; the number of institution branch is positively associated with D_E and negatively associated with C_E ; the corporatization status of the institution is positively influences D_E and negatively influences C_E and T_E ; and computerized *zakāt* disbursement system usage negatively influences C_E .

ملخ لبحث

تهدف هذه الدراسة إلى قياس مدى فعالية صرف الزكاة في مؤسسات الزكاة في شبه جزيرة ماليزيا، مع تحديد العوامل التي تؤثر على الكفاية والفعالية. وقد تمّ اختيار سبع مؤسسات من مؤسسات صرف الزكاة، لتكون بمثابة عينة لهذه الدراسة. وقد تمّ تحليل مظهرين من مظاهر الفعالية والكفاية في هذه الدراسة أ- معيار كفاية أو فعالية الصرف. ب- تحديد العوامل المؤثرة في فعالية صرف الزكاة لدى المؤسسات موضع العينة. أولاً: تطبيق التحليل النسبي، وهناك ثلاثة معايير كفاية قد طُبقت وهي: فعالية الصّرف، وفعالية التكلفة، وفعالية الوقت. اتضح - في المتوسط- أنّ ولا يتي سلانجور، وقدح من أكثر الولايات فعالية فيما يختص بمعيار فعالية الصرف، وكلنتان أكثر فعالية في مقياس معيار فعالية التكلفة، أما أكثر الولايات فعالية في معيار فعالية الوقت فهي: سلانجور، ونجري سمبيلان، ووبينانق. واتضح أن معيار فعالية الوقت قد تطور في الفترة من 2000-2005م، وشمل هذا التطور جميع المؤسسات موضع العينة حتى 2005م. أما معيار فعالية الصرف فقد تطور في الأربع سنوات الأولى، ثم هبط بعد ذلك في السنتين التاليتين، ثم استردّ قوته في 2005م. ثانياً: هنالك أربعة عوامل محتملة، وهي: أ- عدد موظفي مؤسسات صرف الزكاة. ب- عدد فروع مؤسسات صرف الزكاة. ج- استخدام نظام الحاسوب في الصرف. د- حالات خصخصة مؤسسات الزكاة، وهذه العوامل الأربعة قد انحسرت مقابل ثلاثة معايير من معايير الفعالية (فعالية الصرف، وفعالية التكلفة، وفعالية-الوقت) التي تمّ اختبارها في المظهر أو الجانب الأول من أجل إظهار مدى تأثيرها على فعالية معايير صرف الزكاة. وقد أظهرت نتيجة الانحسار أن عدد موظفي مؤسسات صرف الزكاة يرتبط ارتباطاً إيجابياً بمعيار فعالية الصرف، وسلباً بمعيار الوقت، أما عدد الفروع فيرتبط إيجاباً بمعيار فعالية الصرف، واستخدام النظام الحاسوبي في الصرف بفعالية يؤثر على فعالية التكلفة، أما الخصخصة فتؤثر إيجابياً على معيار فعالية الصرف، وسلباً على معيار فعالية الوقت.

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 dissertation for the degree of Master of Science in Accounting.

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Siti Normala Sheikh Obid
Supervisor

I certify that I have 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 dissertation for the degree of Master of Science in Accounting.

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Examiner

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This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as a partial fulfilment of the requirements for the degree of Master of Science in Accounting.

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Jamil Osman
Dean, Kulliyah of Economics and
Management Sciences

DECLARATION

I hereby declare that this dissertation 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.

Nazifah Binti Mustaffha

Signature:.....

Date:.....

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**ZAKĀT DISBURSEMENT EFFICIENCY – A COMPARATIVE STUDY
OF ZAKĀT INSTITUTIONS IN MALAYSIA**

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LIST OF ABBREVIATIONS

AIMES	Annual Impact Monitoring and Evaluation System
CCF	Christian Children's Funds
C_E	Cost Efficiency
D_E	Disbursement Efficiency
<i>e.g.</i>	(<i>exempligratia</i>): for example
<i>et al.</i>	(<i>et alia</i>): and others
<i>etc.</i>	(<i>et cetera</i>): and so forth
FMI	Financial Management Initiative
i.e.	(<i>id est</i>): that is
IT	Information technology
IT_c	Comprehensive <i>zakāt</i> disbursement system
JAKIM	Jabatan Kemajuan Islam Malaysia
LZS	Lembaga Zakāt Selangor
MAIWP	Majlis Agama Islam Wilayah Persekutuan
MIS	Management information system
MUIS	Majlis Ugama Islam Singapura
NCP	National Competition Policy
NPM	New Public Management
PPZ	Pusat Pungutan <i>Zakāt</i>
SIRC	State Islamic Religious Council
T_E	Time Efficiency
ZDE	<i>Zakāt</i> Disbursement Efficiency

CHAPTER 1

INTRODUCTION

Zakāt disbursement is a part of a *zakāt* management system. As far as Islamic principle is concerned, *zakāt* disbursement constitutes the same importance as *zakāt* collection. Principally, *zakāt* funds should be disbursed immediately to the right beneficiaries, i.e. the eight categories of *asnaf* in order to avoid misuse and mismanagement of the *zakāt* funds. Generally, *zakāt* disbursement function lies under the responsibility of the State Islamic Religious Council (SIRC) in most of the states in Malaysia. In several states such as Terengganu and Kedah, it is governed by the Islamic department of the state government.

Zakāt institutions are responsible to handle and manage religious matters that are outlined under the jurisdiction of the state government including marriage, *waqaf*, *zakāt* as well as heritage properties. Each of these matters is managed by a separate division of the councils. For instance, *zakāt* is managed by the *zakāt* division or *Baitul-māl* Unit. This division is further divided into sub-divisions, which are *zakāt* administration, collection and disbursement. However, there is a shortage of staff and experts in the *zakāt* institutions relative to the numerous tasks under their responsibilities. This limitation leads to inefficiency and ineffectiveness of *zakāt* management performed by the *zakāt* institutions (Ahmad Hidayat, 1997; Wahairi, 2001). This scenario creates dissatisfaction among the society at large with regards to the *zakāt* management in Malaysia and subsequently it jeopardizes the reputation of *zakāt* institution in the country.

Realizing the weaknesses of the *zakāt* management performed by the individual *zakāt* institution, there are various initiatives taken by each *zakāt* institution in order to improve the *zakāt* collection, disbursement and administration respectively. One of the initiatives is corporatization of *zakāt* institution. Hence, past research findings suggest that (i) the increase in the number of *zakāt* personnel (Wahairi, 2001); (ii) the use of computerized system in *zakāt* management (i.e. partial or comprehensive *zakāt* disbursement system) (Mohamed Dahan, 1997; Ismail, 2001) and (iii) the number of *zakāt* institutional branch (Ibrahim, 1981) have some influence in *zakāt* management in the country.

Due to the issues highlighted above, the current study is going to be conducted based on several objectives and motivations.

1.1 OBJECTIVES OF THE STUDY

There are three main objectives of this study. They are:

- (i) To measure the *Zakāt* Disbursement Efficiency (ZDE) of *zakāt* institutions in Malaysia by using ratio analysis.
- (ii) To analyze the trend in efficiency of *zakāt* disbursement managed by the institutions.
- (iii) To identify the factor(s) that may influence the level of efficiency in disbursing *zakāt* funds by the *zakāt* institutions in Malaysia.

From the above objectives, the researcher derives three main research questions (RQ). The questions are:

- (RQ 1) What is the level of *zakāt* disbursement efficiency of *zakāt* institutions in Malaysia in term of disbursement, cost and time efficiencies?
- (RQ 2) Do the *zakāt* institutions under study become more efficient over time?

(RQ 3) How well do the number of *zakāt* disbursement personnel, the number of the institution branch, corporatization status of *zakāt* institution and the usage of computer-based system influence the efficiency measures of *zakāt* disbursement activities of *zakāt* institutions?

1.2 MOTIVATION OF THE STUDY

A number of studies on *zakāt* have been conducted by previous researchers (Mahayudin, 2000; Nor Ghani, Mariani, Ja'afar & Nahid, 2001; Zulkefly, Mohd Azlan Shah & Hairunnizam, 2002; Jamaliah, 2004; Musa, Abd. Halim & Syahbudin, 2006). Despite various studies on *zakāt*, they tend to focus on collection and administration part of *zakāt* management or *zakāt* management in general. Hence, the literature on *zakāt* disbursement is still lacking. Therefore, this study is aimed to add to the literature with regards to the *zakāt* disbursement.

The minimal number of literature on *zakāt* disbursement, specifically measuring performance and efficiency, has created the need for such study. This is particularly true on measuring the efficiency of the *zakāt* disbursement, which is managed by the *zakāt* institutions in Malaysia.

The need for measuring *zakāt* disbursement efficiency is more crucial when the literature found that the *zakāt* disbursement is inefficiently and ineffectively managed by the *zakāt* institutions or *Baitul-māl* (Paimuzi, 1996; Ahmad Hidayat, 1997; Wahairi, 2001; Zulkefly et al., 2002). However, they did not support their findings with statistical and empirical evidence on the low performance of the institutions. This limitation has motivated the researcher to study the efficiency of the *zakāt* disbursement managed by the *zakāt* institutions statistically.

The low performance of *zakāt* disbursement management will give negative impacts on the reputation of the *zakāt* institutions in *zakāt* management, hence it affects the commitment of *zakāt* payers to pay *zakāt* through official channels, i.e. *zakāt* institutions (Sanep & Hairunnizam, 2004). In other words, people would rather pay *zakāt* directly to the recipients than pay through the formal *zakāt* institutions due to less confidence in the credibility of *zakāt* institutions in managing *zakāt* funds.

Thus, the researcher believes that efficiency measurement of the *zakāt* disbursement management is one of the ways to improve the performance of the institutions, hence recover the public confidence in the credibility of *zakāt* institutions in *zakāt* management. Due to the crucial need for measuring efficiency of the *zakāt* disbursement management, the researcher is inspired to conduct this study with the hope that it will become one of the efforts to improve *zakāt* management in this country.

1.3 ORGANIZATION OF THE STUDY

This study consists of six chapters. Firstly, the study is introduced in the first chapter. This chapter explains the background, objectives and motivation of the study. In addition, the structure of the study is outlined in the chapter, providing an overview of the organization of the research.

Secondly, chapter two reviews *zakāt* management system and practices in Malaysia. It then briefly reviews *zakāt* disbursement management in several countries including Malaysia. It also reviews the efficiency of *zakāt* management and relates the concept of efficiency with the concept of accountability.

Subsequently, chapter three presents a literature review on efficiency measurement. It first introduces the concept of efficiency and its relationship with

accountability and transparency concepts before reviewing efficiency measurement in the religious institutions in details.

Chapter four examines the gap between the literature on the efficiency measurement in religious institutions and performance of *zakāt* institutions in Malaysia, for which the current study is going to bridge. Then, it highlights the research questions as well as framework and hypotheses development for the study.

Chapter five explains the research methods and data collection. It includes sample selection and period of the study, research methods (primary and secondary data) and the statistical techniques applied.

In Chapter six, the data analysis is presented in two sub-sections, namely analysis on (i) *Zakāt* Disbursement Efficiency (ZDE) and (ii) factors that influence the ZDE.

Finally, the study is concluded in chapter seven. This chapter summarizes the findings according to the three research objectives mentioned earlier and the relevant implications of the results. Then, it also explains the limitations and contribution of the study. Finally, it comes out with some suggestions for future research with regards to the related research area.

CHAPTER 2

ZAKĀT DISBURSEMENT MANAGEMENT

2.1 INTRODUCTION

Zakāt disbursement plays an important role in Muslim community, similar to its collection (Ismail, 2006). Efficient and effective *zakāt* disbursement helps to enhance social justice and social security in the Muslim community. Therefore, there is a vital need to systematically manage the *zakāt* disbursement as well as its collection concurrently.

Due to the above reason, this chapter comes up with an overview of *zakāt* management in general and *zakāt* disbursement in particular. This chapter is organized into three main sections. Section 2.2 describes the philosophy of *zakāt* followed by section 2.3 which discusses *zakāt* management in terms of collection and disbursement in general. Section 2.4 then discusses the *zakāt* disbursement in detail, taking into consideration the methods of disbursement and experiences of several countries in managing *zakāt* funds. Subsequently, section 2.5 reviews the practice in the Malaysian scenario before the chapter is concluded in section 2.6.

2.2 PHILOSOPHY OF ZAKĀT

Zakāt is the third pillar of Islam and an act of worship to Allah (Hasan, 1980; Al-Qardhawi, 1999). Technically, *zakāt* is defined as determining a share of one's wealth to be distributed among the rightful beneficiaries that are entitled for the wealth as prescribed by Allah in the Holy Qurān, (Al-Qardhawi, 1999). In *fiqh*, *zakāt* refers to 'a payment of certain portion of certain type of wealth for the benefits of certain

groups that have been specified by Allah' (Mahmud Zuhdi, 2003). Since *zakāt* is a kind of wealth contribution, Mohd. Daud (1998) considered *zakāt* as an act of 'monetary worship' to Allah.

There are two types of *zakāt* in Islam, namely '*zakāt fiṭrah*' (*zakāt al-fiṭr*) and '*zakāt on wealth*' (*zakāt al-māl*). The former is a flat fee imposed on each person to be paid in the month of *Ramaḍān* or early *Syawwāl*¹ (Alfitri, 2006) to purify those who pay *zakāt* and to bring pleasure and gladness to the poor and needy on the Muslim festival day (Al-Qardhawi, 1999). The latter type refers to tax that is levied on individual's wealth or income (Alfitri, 2006).

Zakāt is seen to have crucial impacts on the individual Muslim as well as Muslim society. With regards to the impact on an individual Muslim, *zakāt* is purposely ordered to Muslim in order to purify himself/herself in terms of soul and wealth (Hasan, 1980). On the one hand, the implementation of *zakāt* can prevent the payer from being stingy and materialistic. On the other hand, the recipients will purify their hearts from the feelings of envy, jealousy and angry with the wealth of the rich.

Additionally, *zakāt* aims to bridge the gap between the rich and the poor (Shah Muhammad, 1980; Abu al-Hassan, 2002; Abdul Rahim, 2005). For instance, the rich contributes a portion of their wealth for the poor. In other words, the rich shares the burden and suffering of the poor and the poor enjoys the happiness and the wealth of the rich. Ultimately, this concept of redistribution of wealth will minimize the income gap in the Islamic society.

In the above contexts, proper implementation of *zakāt* in a particular state will ultimately improve the socio-economic condition of the Muslim society in that state.

¹ *Ramaḍān* and *Syawwāl* is the ninth and tenth month in Islamic lunar calendar respectively.

For instance, the higher priority of *zakāt* is to eliminate poverty from the Muslim society (Shah Muhammad, 1980; El-Din, 1986 as quoted by Abu al-Hassan, 2002). Since *zakāt* re-allocates the resources from the rich to the poor (i.e. *zakāt* deters concentration of wealth in the hands of the rich), it becomes the effective approach to fight against poverty (El-Din, 1986 as quoted by Abu al-Hassan, 2002).

Realizing the importance of the implementation of *zakāt* in the Muslim society, proper *zakāt* management is crucial to achieve these objectives. The subsequent sub-section further discusses this aspect.

2.3 ZAKĀT MANAGEMENT

Zakāt management refers to both *zakāt* collection and disbursement. Those who manage *zakāt* are called *‘āmil* or *zakāt* manager. The *zakāt* manager can be either individual person or institution (Mahmood Zuhdi, 2003).

Basically, *zakāt* management is a duty of a state or government, where both collection and disbursement functions are performed by either obligatory or voluntary *zakāt* institutions. Obligatory *zakāt* institution refers to the establishment of *zakāt* institution by the government to whom people are legally obliged to pay *zakāt*, while voluntary *zakāt* institution refers to the establishment of institution by the government to whom people are encouraged to pay *zakāt*, without legal enforcement to do so (Abu al-Hasan, 2002).

The two elements of *zakāt* management (i.e. *zakāt* collection and disbursement) are further discussed in the following sub-sections.

2.3.1 Zakāt Collection

Principally, *zakāt* payment should be made to the ‘*āmil*² whose task is to collect *zakāt* funds. ‘*Āmil* or *zakāt* collector can be an individual, a group or institutional ‘*āmil* (Mahmood Zuhdi, 2003). As far as *zakāt* collection is concerned, its management is performed by two categories of administration, which are (i) obligatory *zakāt* collection by state or government and (ii) voluntary *zakāt* collection by state (Kahf, 1990; Abu al-Hassan, 2002).

The first category is implemented by countries such as Pakistan (Kahf, 1990; Shirazi, 1996) and Saudi Arabia (Kahf, 1990), while the second category is implemented by countries like Kuwait and Bangladesh (Kahf, 1999; Abu al-Hassan, 2002). These categories are illustrated in Figure 2.1 below.

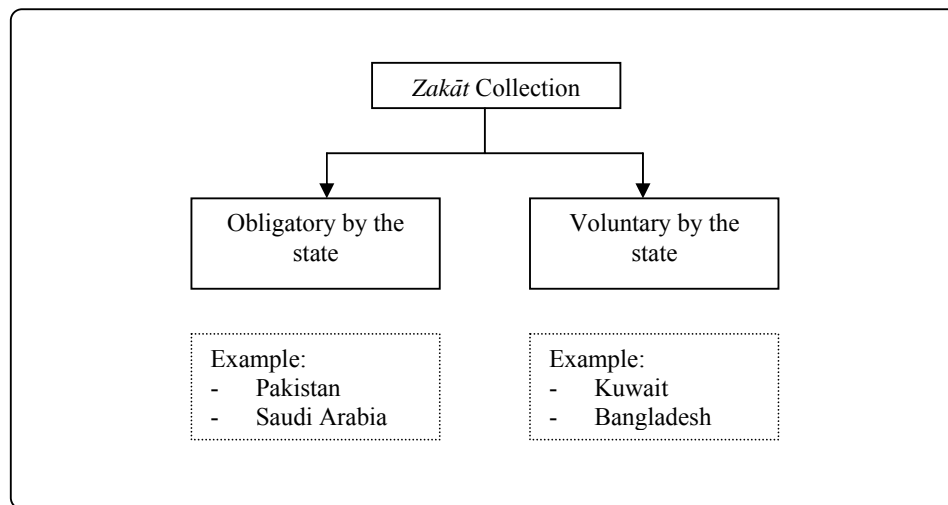


Figure 2.1 - Model of *Zakāt* Collection
Source. Kahf, 1990 and Abu al-Hassan, 2002

² ‘*Āmil* is an individual or a group of person who is responsible to collect and distribute *zakāt* funds (Mahmood Zuhdi, 2003).