ASSESSING THE IMPACT OF ‘WAKALAH IN ZAKAT DISTRIBUTION’ ON ZAKAT COLLECTION: THE CASE OF STATE ZAKAT INSTITUTIONS IN MALAYSIA

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ABSTRACT

A concept of ‘wakalah’ is applied in numerous transactions, indicating the appointment of an agent to perform something on behalf of the principal. This concept is also applied in zakat distribution. In principle, the zakat institution returns a proportion of zakat that has been contributed by the zakat payer, so that the payer can distribute it to the asnaf (beneficiaries) himself. Zakat institutions initially introduced the wakalah concept to attract more zakat payers and subsequently the amount of zakat collection. This study examines the relationship between the wakalah rate and collection trend in state zakat institutions. The wakalah rate in each state zakat institution is first categorised into high, moderate and low. Then, the zakat collection trend in each state is analysed. While a high wakalah leads to more zakat collection, it also causes several issues related to collection and distribution. These issues are even more pressing now because of the COVID-19 pandemic. A higher wakalah can increase cross-state zakat payment, which may lead to uneven zakat collection across states, shrinking the amount of zakat available for distribution in a given state. However, one state that does not apply wakalah in zakat distribution still exhibits an increasing trend in zakat collection. A new normal approach is necessary with regards to the association between zakat wakalah and collection trend during the pandemic. Zakat distribution must prioritise daruriyyat (basic) above hajiyat (facility) and tahsiniyyat (complementary) necessities, consistent with Maqasid Shariah. Zakat distribution should prioritise the protection of life to realise religious adherence. The zakat database should also be updated consistently so that no asnaf is excluded. In summary, the mechanism of zakat wakalah must be refined to preserve the harmony of the Malaysian zakat institution ecosystem, so that all asnaf affected by COVID-19 can receive equal support, thereby mitigating its socio-economic impact.

Keywords: Wakalah, Zakat Distribution, State Zakat Institutions, Malaysia.
1.0 Introduction

The COVID-19 has spread in Malaysia since 25 January 2020 (Berita Harian, 2020 September 25). The world has witnessed more than a million deaths eight months since the virus was first detected in Wuhan in December 2019. The first death in China was reported on 11 January 2020. In Malaysia, the virus was detected after a Chinese tourist who entered the country via Singapore was tested positive for COVID-19. The pandemic has affected numerous national economic sectors.

The socioeconomic impact of COVID-19 is thoroughly felt at the local and global level. The limitation of movements to break the COVID-19 chain has affected various industries, causing numerous firms to suffer great losses and businesses to close. Even more unfortunate, most of those affected have lost their income. Relating this situation to zakat, this would mean that zakat collection would decrease while zakat recipients otherwise. This discrepancy requires zakat institutions to play their roles more aggressively and proactively.

Generally, if zakat collection shrinks, the eight asnaf groups will be ranked by priority. According to Ustaz Hamizul Abdul Hamid, the Manager of the Secretariat of Dakwah and Da’i of the Selangor Zakat Board (LZS), disruption in zakat collection will affect its distribution to the eight asnaf. He explained that the order of asnaf, from least to most prioritised, is ibn sabil, fi sabilillah, gharimin, riqab, muallaf, ‘amil, miskin, and faqir. This means that the highest priority is the survival of the faqir and miskin groups.

Another aspect to observe is zakat collection. The zakat institution progressively collects zakat through not only direct means, e.g., through an ‘amil, but also through indirect means consistent with current technology infrastructure. Such an infrastructure also supports the implementation of an agent system (Mohd Annuar & Mohammad Naqib, 2017). The agents include education institutions and non-government organisations (NGO) that receive zakat refund at a certain rate. These agents actively collect zakat, even outside of state borders, because of the high rate of refund. Some zakat institutions apply the wakalah contract in their zakat distribution system.

According to Ahmad & Wahid (2017), wakalah is the appointment of an agent to give or act on the principal’s behalf. Unlike a will (wasiyyah), wakalah is carried out when the principal is still alive. Wakalah is applied in various contexts. For example, in takaful, wakalah is the appointment of a takaful operator to manage and invest the funds of the participants on their behalf, as recommended in Islam: “Yusuf said, ‘Appoint me over the storehouses of the land. Indeed, I will be a knowing guardian.’” (Yusuf: 55). Wakalah is permissible in Islam, as Rasulullah pbuh delegated to his companions. For example, Rasulullah pbuh said to Unais, “O Unais, go to the woman. If she confesses, stone her.” Wakalah is similarly employed by zakat institutions.

2.0 The Application of Wakalah Concept in Malaysian State Zakat Institutions

In zakat, wakalah means the refund of zakat funds by a zakat institution upon the request of the zakat payer. Wakalah in zakat has been thoroughly discussed by Ahmad and Wahid (2017) in their case study of the Federal Territories Islamic Religious Council (MAIWP). Zakat wakalah is given to individuals and organisations with several conditions. For individuals, they must be Muslims, Malaysian citizens, and their household income should not exceed the kifayah limit. For organisations, they must be agencies, mosques/suraus, institutions of higher learning (IHL), and schools registered with the State Islamic Religious Council (MAIN) and Ministry of Education (MOE).
Zakat distribution via *wakalah* is detailed in the *wakalah* briefing of the Baitulmal Division of MAIWP (Ahmad & Wahid, 2017). The *wakalah* distribution schemes are divided into permissible and impermissible. Permissible schemes include baitulmal zakat assistance schemes; purchase of basic equipment of mosques, suraus, or schools; funding of religious, education, motivational, or similar programs and their related expenses, e.g., speaker honorarium, food and drinks, and course equipment.

Additionally, the flowchart illustrating the process from *wakalah* application to zakat distribution provides a clear systematic workflow to ensure the proper distribution of zakat. The Chief Executive Officer of PPZ MAIWP, Ahmad Shukri Yusoff, explained that the zakat *wakalah* scheme enables zakat payers to self-distribute their *zasaf*. Heirs of deceased zakat payers will be given a death benefit fund of RM3,000 (Harian Metro, 17 February 2021). The diverse schemes are expected to increase zakat collection.

Islam divides human needs into three levels: *daruriyyat* (basic), *hajiyyat* (facility), and *tahsintiyat* (complementary). These are consistent with the *Maqasid Shariah* of preserving and protecting five elements, ordered by priority: religion, life, intellect, progeny, and wealth. *Maqasid Shariah* is applicable in all facets of life, including the Islamic institution of zakat (Zakariyah et al., 2017). The Minister in the Prime Minister’s Office, Datuk Seri Dr Zulkifli Mohamad al-Bakri, reminded of the urgency to preserve life during the COVID-19 pandemic. Muslims may desire to perform acts of worship in Ramadhan as usual to preserve religion, but this objective cannot be achieved without first preserving life (Berita Harian, 2020, April 23).

As with daily life, new norms for zakat collection and distribution have become essential because as a result of the COVID-19 pandemic. Zakat institutions must prioritise *daruriyyat* needs, that is, those necessary for survival and preservation of life and health, by providing food and shelter. In doing so, they will be then able to preserve religion. Zakat distribution via *wakalah* must fulfil those priority needs. In addition to MAIWP, other state zakat institutions also offer *wakalah* zakat. Table 1 below lists the *wakalah* rate in each state.

<table>
<thead>
<tr>
<th>State</th>
<th>Employer (%)</th>
<th>Individual (%)</th>
<th>Corporat (%)</th>
<th>IHL (%)</th>
<th>Total (%)</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perlis</td>
<td>-</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>150%</td>
<td>High</td>
</tr>
<tr>
<td>Selangor</td>
<td>12.50%</td>
<td>37.50%</td>
<td>37.50%</td>
<td>50%</td>
<td>137.5</td>
<td>High</td>
</tr>
<tr>
<td>Wilayah Persekutuan</td>
<td>12.50%</td>
<td>25%</td>
<td>37.50%</td>
<td>37.50%</td>
<td>112.5</td>
<td>High</td>
</tr>
<tr>
<td>Negeri Sembilan</td>
<td>-</td>
<td>37.50%</td>
<td>37.50%</td>
<td>-</td>
<td>75</td>
<td>Moderate</td>
</tr>
<tr>
<td>Melaka</td>
<td>-</td>
<td>37.50%</td>
<td>37.50%</td>
<td>-</td>
<td>75</td>
<td>Moderate</td>
</tr>
<tr>
<td>Perak</td>
<td>-</td>
<td>-</td>
<td>25%</td>
<td>50%</td>
<td>75</td>
<td>Moderate</td>
</tr>
<tr>
<td>Penang</td>
<td>-</td>
<td>30%</td>
<td>30-37.5%</td>
<td>-</td>
<td>67.5</td>
<td>Moderate</td>
</tr>
<tr>
<td>Kedah</td>
<td>-</td>
<td>25%</td>
<td>37.50%</td>
<td>-</td>
<td>62.5</td>
<td>Moderate</td>
</tr>
<tr>
<td>Kelantan</td>
<td>-</td>
<td>25%</td>
<td>25%</td>
<td>-</td>
<td>50</td>
<td>Low</td>
</tr>
<tr>
<td>Johor</td>
<td>-</td>
<td>-</td>
<td>37.50%</td>
<td>-</td>
<td>37.5</td>
<td>Low</td>
</tr>
<tr>
<td>Pahang</td>
<td>-</td>
<td>-</td>
<td>37.50%</td>
<td>-</td>
<td>37.5</td>
<td>Low</td>
</tr>
</tbody>
</table>
Based on Table 1 above, it shows that each state is classified into the high-, moderate-, or low-rate category based on the sum of rates for all segments eligible to be the agents of the ‘amil in the zakat wakalah distribution system. These segments are employers, individuals, companies, and IHLs, showing the range of wakalah rate for each segment. The IHL segment has the highest range (37.5-50%), but it is only available in four states, namely Perlis, Selangor and Perak (50%) and Wilayah Persekutuan (37.5%). However, Wakalah is available for the corporate segment in every state, with a range of 12.5-50% in comparison with Terengganu, which is the only state that does not distribute zakat via wakalah.

Based on the range (%) in Table 1, only two states, Selangor and the Federal Territories, distinguish the employer segment from the corporate segment; the former has a wakalah rate of 12.5%. In general, nine states offer wakalah for the individual segment with a rate of 25-50%, except for Johor, Pahang, Sabah, and Sarawak. The correlation between the different wakalah rates and zakat collection in each state is then analysed.

3.0 Correlation between Wakalah Application and Zakat Collection

Based on the overall wakalah rate, zakat collection in every state is analysed using the latest secondary data. Figure 1 shows a positive trend in zakat collection from 2010 to 2019. The correlation between zakat collection trend and zakat wakalah is analysed by categorising the rate into high, moderate, and low.

3.1 High Zakat Wakalah Rate and Zakat Collection Trend

Three states have a high wakalah rate: Perlis, the Federal Territories, and Selangor. During the pandemic, the Federal Territories have shown a positive zakat collection trend while Selangor
otherwise. Berita Harian (2020, December 6) reported that the LZS expects lower zakat collection in 2021. The report stated that most businesses suffered losses during the pandemic. Many workers were furloughed, while others experienced wage cuts. As a result, zakat on income and profits are expected to shrink. Even so, the Federal Territories Zakat Board collected RM700 million (371,448 payers) in zakat in 2020, more than the preceding year, which was RM682.2 million (211,012 payers) (Berita Harian, 2020, December 29). This suggests that the COVID-19 pandemic does not reduce zakat payment in the Federal Territories, whose collection is typically lower than that of Selangor (Figure 2).

![Figure 2: Zakat collection trend in states with a high wakalah rate](image)

As Figure 2 shows, all three states have shown a gradual positive trend in zakat collection, although there are only three years of data for Perlis (2013-2015). In general, states with a high wakalah rate collect more zakat, especially Perlis, whose collection from 2010 to 2016 increased by 465% (Mohd Anuar & Mohammad Naqib, 2017). Even so, Wahid and Kader (2010) stressed that cross-state zakat collection, as practiced in Perlis, is not permissible. Referring to several hadiths, they explained that zakat funds collected in a given state should not be transferred to another state unless there are no more rightful zakat recipients in the former.

While wakalah is in principle employed to increase zakat collection, statistics showed that Selangor and the Federal Territories have always recorded a large amount of zakat collection. Therefore, the implementation of wakalah must be re-examined as it may affect the capacity of other zakat institutions to aid more needy asnaf, especially during the COVID-19 pandemic that has affected the entire nation, to safeguard the harmony of the zakat institution ecosystem. Khalid and Wahid (2010) recommended the improvement of the asnaf database system, in line with the development of technology infrastructure, to aid the increasing number of asnaf.

### 3.2 Zakat Wakalah For Companies And Zakat-On-Business Collection Trend

Not every state offers zakat wakalah to individuals, but all of them, save for Terengganu, offers wakalah to the corporate segment. Four states exclusively offer wakalah to companies: Pahang, Johor, Sabah, and Sarawak. On the other hand, Perak offers wakalah to companies and IHLs, but not individuals. These indicate their effort to increase the collection of zakat from businesses rather than from individuals.

Figure 3 below shows the collection trend of zakat on business in those states. Looking at the trend in 2015-2018, there are fluctuations in zakat collection, indicating the gap between actual and potential zakat collection (Abdul Wahab & Borhan, 2016).
Figure 3: Zakat on business trend in states that offer *wakalah* to segments other than individuals

The Chairman of PPZ-MAIWP, Datuk Che Mat Che Ali, said in Berita Harian (2018, April 28) that the *Ziarah Zakat* programme is continually carried out in series together with the Muslim Consumer Association of Malaysia (PPIM). This is to encourage Muslim business owners and companies to pay their zakat to authorised zakat agencies. This is one of many efforts by the institution to raise awareness of the importance of zakat and its benefit to society. The collection trend of zakat on business is further scrutinised by computing zakat on business as a percentage of zakat on wealth while excluding zakat *al-fitr*. As shown in Table 2, its percentage ranges between 16.5 to 42.9%.

<table>
<thead>
<tr>
<th>State</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Zakat on business %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perak</td>
<td>38.2</td>
<td>36.0</td>
<td>35.9</td>
<td>30.2</td>
<td>35.1</td>
</tr>
<tr>
<td>Pahang</td>
<td>35.7</td>
<td>33.8</td>
<td>35.6</td>
<td>32.8</td>
<td>34.5</td>
</tr>
<tr>
<td>Sabah</td>
<td>33.9</td>
<td>28.0</td>
<td>42.9</td>
<td>25.3</td>
<td>32.5</td>
</tr>
<tr>
<td>Johor</td>
<td>34.9</td>
<td>29.3</td>
<td>28.3</td>
<td>28.6</td>
<td>30.3</td>
</tr>
<tr>
<td>Sarawak</td>
<td>16.7</td>
<td>16.5</td>
<td>31.6</td>
<td>25.3</td>
<td>22.5</td>
</tr>
</tbody>
</table>

Table 2 shows the average percentage in the selected states computed from limited data. Perak has the highest proportion of zakat on business (35.1%), followed by Pahang (34.5%), Sabah (32.5%), and Johor (30.3%). In general, its share is more than one-third of zakat on wealth. However, the share of zakat on business in Sarawak is less than a quarter of zakat on wealth (22.5%). Another interesting point is that Johor Bharu, while being one of Malaysia’s major commercial cities (based on NAPIC’s (2018) Property Market Report), has a lower share of zakat on business than Perak, Pahang, and Sabah. This clearly indicates the urgency for zakat institutions to collect more zakat from businesses. Therefore, offering zakat *wakalah* to the corporate segment can incentivise firms to contribute their zakat.

### 3.3 Zakat Collection Trend Without Zakat *Wakalah*

Past studies showed that Terengganu does not implement zakat *wakalah* in its distribution system. Even so, as Figure 4 shows, zakat collection in the state has continually increased.
This implies that the appointment of an agent, such as via wakalah, in the zakat distribution system is not the sole mechanism to increase zakat collection. Although this method is expected to increase zakat collection, as it allows zakat payers to self-distribute zakat, it leads to insufficient distribution of zakat to the neediest asnaf. Ibrahim (2020) showed that the COVID-19 pandemic has affected the collection and distribution of zakat in Malaysia. An Indonesian study also reported a similar situation (Wahyu & Anwar, 2020). Even though zakat collection has increased, due to wakalah practice, the capacity of the zakat institution is reduced because some of the collected zakat has to be returned to the payers for self-distribution. The zakat payment record allows them to claim an income tax rebate, but the returned zakat may not be distributed to the asnaf, or it may not be given to the more needy asnaf. Moreover, during the pandemic, the definition of asnaf has been broadened so that those affected can be assisted. Some zakat payers have now become zakat beneficiaries that must be assisted (Masruki et al., 2020).

4.0 Summary

Generally, the agent appointment system, one of which is through wakalah (refund), in zakat distribution is expected to attract more zakat payers, and accordingly increase zakat collection. However, the distribution aspect must be examined more carefully, especially as the COVID-19 pandemic continues to constrain the country and the world. The application of zakat wakalah in distributing zakat raises the question of whether zakat wakalah agents prioritise their distribution to the neediest asnaf and fulfil their daruriyyah needs. The zakat should be distributed to those asnaf to fulfil their basic needs and ensure their survival, so that the purpose of preserving life can be fulfilled. In turn, this would lead to the preservation of religion, as outlined by Maqasid Shariah.

Furthermore, as the capacity of zakat institutions to assist the asnaf diminishes due to the self-distribution of zakat via wakalah, it remains uncertain how these institutions can demonstrate their accountability. The authorised agents may not distribute their zakat to the neediest asnaf – the definition of which has been expanded during the pandemic – which may lead to dissatisfaction among the asnaf. This study is expected to provide some insights into the relevance of wakalah in zakat distribution during the pandemic; specifically, whether it actually increases collection and is utilised in distribution. A comprehensive and timely database, in line with the development of technology infrastructure, must be continually updated to ensure...
that no *asnaf* is excluded. Such a database is essential to assist the increasing number of *asnaf* and mitigate the socioeconomic impact of the pandemic.
REFERENCES


