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MALAYSIAN ZAKAT AND WAQF ADMINISTRATION: EMERGING CHALLENGES AND GLOBAL BEST PRACTICES

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ABSTRACT

This study examines the administration of Zakat and Waqf in Malaysia, fundamental Islamic social finance mechanisms crucial for wealth redistribution and community development. Through a comprehensive literature review, analysis of historical documents, legal frameworks, and case studies from Malaysia and other Muslim-majority countries, the research aims to evaluate the current state of these systems and identify areas for improvement. The study reveals that while Malaysia has made significant progress in institutionalizing the Zakat and Waqf administrations, challenges persist in public awareness, compliance, and efficient distribution. Comparative analysis with countries like Saudi Arabia, Indonesia, and Singapore highlights potential enhancements, particularly in leveraging technology and standardizing practices across states. The research concludes that integrating these systems with modern financial technologies, improving public education, and addressing regulatory gaps could significantly boost their effectiveness, suggesting that adopting successful strategies from global best practices could help overcome current challenges and maximize the socio-economic impact of Zakat and Waqf in Malaysia.

KEYWORDS: Zakat, Waqf, Islamic social finance, Malaysia, religious institutions, legal frameworks, digital transformation, global best practices, public awareness, regulatory challenges, financial technology, poverty alleviation, social welfare

INTRODUCTION

In Islamic social finance, there are two main principles of Zakat and Waqf, which are cornerstones of economic equity or social justice as well as social welfare and investment. Zakat, which is the almsgiving that is mandatory according to Islamic law and is one of the Five Pillars of Islam, acts as a tool for transferring wealth, while Waqf, which is a kind of endowment, is a way of financing social



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needs (Ahmed Imran Hunjra et al., 2024). In Malaysia, a country with having majority of Muslims as a population, these institutions are in specific focus to overcome poverty, to support education and for social upliftment. The management of zakat and waqf in Malaysia has experienced some kind of change since the liberation of the country. Where it was once a random and chaotic system administered by local clergy, it has evolved into a network of state-level structures functioning according to the laws. The Majlis Agama Islam Negeri (State Islamic Religious Councils) currently undertake the administration of zakat while different bodies oversee the Waqf estates and funds (Mohamad & Zulkarnain Muhamad Sori, 2023).

Nevertheless, problems can be observed in such systems even if they have been institutionalised. Questions like the levels of awareness, compliance, distribution, and the use of technology affect the efficiency of Zakat and Waqf systems even today (Muhamad & Norelliyana, 2024). In addition, due to decentralization in Malaysia where the country operates under a federal system of government, these institutions have experienced inefficiency in practices as observed in different states. Other Muslim countries in the global world have adopted a variety of models of the administration of Zakat and Waqf and some of them have reached great achievements. Concerning this, there is a possibility that some of the best practices from countries such as Saudi Arabia, Indonesia, and Singapore may apply to the Malaysian situation.

The objective of this research paper is to assess Malaysia's current Zakat and Waqf administration and determine its strong points and pitfalls, as well as potential opportunities for enhancement. This study aims to achieve the following objectives: Firstly, the study will compare the current practices of Malaysian Islamic social finance with international standards and secondly explore fresh ideas to advance the discourse on the effectiveness of Islamic social finance in replacing modern socio-economic problems. Consequently, the implications drawn from this study are relevant not only for Malaysia's policymakers and Islamic establishments but also for the broader discourse on the role of Islamic financial institutions in promoting social welfare and sustainable development in the 21st century.

ZAKAT COLLECTION IN MALAYSIA

In Malaysia, the state religious councils, called Majlis Agama Islam Negeri (MAIN),



since zakat is based on Islamic law and states have jurisdiction over such matters, do the collection of zakat. All the Malaysian states have zakat bodies that are involved in collecting and disbursing zakat like Lembaga Zakat Selangor, Pungutan Zakat Wilayah Persekutuan and many more (Mukhlisin Mukhlisin et al., 2024). These institutions help to see to it that zakat is collected in accordance with Islamic law and those who are entitled to receive it (asnaf) which are the poor, the needy, the people in debt, etc. Zakat collection includes two main types. First is Zakat Fitrah, a sort of charitable donation made compulsory during the fasting month of Ramadan and this is proportioned according to the number of individuals in a household. The second is Zakat on Wealth (Zakat al-Mal), which includes zakat on income, savings, gold, businesses, and agricultural produce, among others (Norita Kamaruddin & Dimon, 2023).

HISTORY OF ZAKAT COLLECTION

The zakat system in Malaysia has evolved over time. In the past people, especially Imams of the mosques or other local religious heads informally were the main collectors of zakat. With the progress of the countries' governance, states have started institutionalizing zakat institutions under religious bodies (Sayed et al., 2024). During the 1970s, most states had established legal institutions and agencies to collect zakat and it was institutionalized at this time. The bureaucratic establishment of Zakat made the whole procedures of collection, record keeping, and fund distribution much more efficient and well organized. However, with the advent of electronic payment systems and most importantly online platforms in the late 1990s and early 2000s the collection of zakat became easier (Nur et al., 2023).

MALAYSIAN LAWS ON ZAKAT

The administration of zakat in Malaysia is under the state laws and regulations as Islamic laws including zakat are under the state's jurisdiction as provided in the Federal Constitution of Malaysia.

- i. Zakat Fitrah Enactment 1982: This law is the legal ground for the collection as well as the disbursement of zakat fitrah, which is the zakat that is paid by Muslims during the fasting month of Ramadan (Sayed et al., 2024).



- ii. State Zakat Laws: Some of the Malaysian states have coded their zakat laws to suit their own needs and situations in the region (Norita Kamaruddin & Dimon, 2023).
- iii. Islamic Financial Services Act 2013: Another act in Malaysia, which governs the operation of Islamic financial institutions and it, also contains zakat provisions (Sutina Mahmud et al., 2024).
- iv. Income Tax Act 1967: This act mainly deals with the issues of income tax but entails some provisions relating to zakat deductions (Mukhlishin Mukhlishin et al., 2024).

The Islamic council in each state determines guidelines and procedures relating to the method of collection of zakat and it has to satisfy the Islamic Shariah standards.

CHALLENGES IN COLLECTING ZAKAT

Despite the formal structure, the zakat collection in Malaysia faces several challenges:

Awareness and Understanding: Some Muslims are still in the dark about how zakat should be paid; then others have no clue about how to calculate zakat and its rightful amount and hence there is an under-collection of the money (Muh Tabran et al., 2023).

Compliance: Not all eligible zakat payers comply with their obligations, due to either ignorance or reluctance. There is a need for better enforcement and awareness campaigns (Mohamad & Zulkarnain Muhamad Sori, 2023).

Management of Distribution: Proper distribution of zakat or identification of those who deserve to be provided with zakat has always been a problem and this is even more so in the rural areas. They also noted that mishandling or any flaw in the distribution network was a sure way of lowering public confidence in the system (Sayed et al., 2024).

Digital Transformation: Although there are improvements in the latest methods of paying zakat digitally, there are always challenges to implementing it for the elderly or those in rural areas who are not much into the internet (Nely Rahmawati Zaimah & Roja, 2024).



Consistency across States: Each state manages zakat independently; therefore, there might be inconsistencies in the process of collection and payment of zakat. This can create confusion for Muslims when they switch between different states or when they have investments in different regions (Muhamad et al., 2023).

HOW THE WORLD SEES ZAKAT COMPARED TO TAX

While the zakat is considered as being one of the major religious obligations known as the pillars of Islam, taxes are generally recognized as being civil duties. Despite their similarities in being mandatory payments, zakat and taxes have different purposes and implications: Despite their similarities in being mandatory payments, zakat and taxes have different purposes and implications:

Purpose:

Zakat is based on the belief that there is a necessity for wealth redistribution through it so that justice is meted out to the less fortunate. These are the poor, the needy, the debtors and anyone else as outlined under Islamic Sharia Law (Mustika Ayu Safitri et al., 2024). Tax in secular systems is a mandatory money contribution at the instance of the government to meet fiscal requirements of society, and its civil necessities such as servants, roads, institutions etc. (Rismawati Rismawati & Supriadi Supriadi, 2023).

Public Perception:

Zakat is commonly understood as a positive and religious/charitable practice in most of the member countries because it reinforces social cohesion (Mustika Ayu Safitri et al., 2024). Taxes on the other hand can be considered as an imposition by many of the taxpayers because, in some instances, individuals consider certain tax systems to be either, inefficient or corrupt (Muhammad Rifky Pratama et al., 2024) .

Accountability:

Religious leaders or non-profit organizations generally manage the money collected for the Zakat legalized, and thus people trust such systems (Mohamad & Zulkarnain Muhamad Sori, 2023). Taxation is centralized at the state level, and the abuse of this money by the state may lead to dissatisfaction among the public. This shows why transparency in the administration of taxation should be



encouraged (Muhammad Rifky Pratama et al., 2024).

COUNTRIES SUCCESSFUL IN ZAKAT COLLECTION ON A GLOBAL SCALE

Several countries have implemented effective zakat management systems, contributing significantly to poverty reduction and social welfare:

Malaysia: Malaysia has ensured that its zakat collection system is centralised and institutionalised by the government through agencies such as Lembaga Zakat Selangor (LZS) and Lembaga Zakat Negeri Kedah. This system has efficiently collected and disbursed zakat and was utilized for the eradication of poverty and education and health facilities for the poor (Mukhlishin Mukhlishin et al., 2024).

Saudi Arabia: Zakat is one of the essential components of the social safety net of the Kingdom of Saudi Arabia. There is a government body, called Zakat, Tax and Customs Authority, which deals with the Saudi Arabian zakat collection and distribution for social causes such as caring for the widows and orphans as well as the maintenance of the poor people (Mohamad & Zulkarnain Muhamad Sori, 2023).

Indonesia: Zakat, one of the key tenets of Islamic charity, has been institutionalized in many countries across the Muslim world where Indonesia stands out as the home to the largest population of Muslims. The responsible governmental institution is the national zakat body, BAZNAS, which collaborates with the other private sector institutions to manage zakat smoothly. International experience has shown that Indonesia has been successful in zakat mobilization, and therefore many countries follow the example of Indonesia (Hilyati Inayah Siregar et al., 2023).

WAQF AND ZAKAT: COMPLEMENTARY SYSTEMS

Both waqf (endowment) and zakat are integral to Islamic social finance, with unique characteristics that complement one another:

Zakat is a mandatory, short-term wealth transfer to support immediate social needs. Zakat funds are typically used to meet the current needs of vulnerable groups, such as the poor, debtors, and travellers (Bashir Lima Mashema & Ayuba Bala Haruna, 2023). A waqf is a voluntary, long-term endowment where the



capital (e.g., property, land, or money) is preserved, and the income generated is used for charitable purposes. Waqf properties have historically been used to fund public services like education, healthcare, and social welfare (Elbachir Askouri, 2024).

CASE STUDIES AND GLOBAL BEST PRACTICES

Turkey's Waqf System: In this respect, Turkey has a long experience in the administration of the waqf institutions. The country has a contemporary strategy for the renewal of its waqf sector that has eased the governance framework and ensured the sector is strategic in funding education and healthcare services. The General Directorate of Foundations (Vakıflar) to avoid any issues of embezzlement and fraud monitors these (Mukhlishin Mukhlishin et al., 2024).

Singapore's Majlis Ugama Islam Singapura (MUIS): In Singapore, both zakat collections and administration as well as waqf management are conducted by MUIS. The zakat collection is also highly centralised, and the waqf properties are well managed by professional organisations. The property produces revenue and serves to provide, maintain, and develop places of worship, schools, and other charitable causes (LISTIANA et al., 2024).

The UAE and the Dubai Waqf International: The UAE has developed new initiatives including the Dubai Awqaf and Endowment Vision that support the application of waqf in meeting present-day issues including housing, health and education. Due to this, Dubai has started the smart waqf to get other sources of income to support the future needs of the community (Mukhlishin Mukhlishin et al., 2024).

PROBLEMS OF ZAKAT & WAQF ADMINISTRATION

Inefficiency in Distribution: As for the world's zakat, its collection is fragmented in many countries and thus they are not very effective in delivering the funds to the intended beneficiaries. These efforts have been more effective when conducted through centralized systems (None Mohammad Qutaiba et al., 2024).

Lack of Public Awareness: The current study revealed that most of the Muslim respondents have little knowledge about the ability of Waqf as a sustainable development tool. It is necessary to undertake social campaigns and bring



about a revival of waqf as an important social welfare instrument (Silvya Eka Marenza & Karimuddin Karimuddin, 2024).

Regulatory Gaps: Some parts of the world have no adequate laws that address the issue of zakat and waqf and hence, most of it is mismanaged and fraught with corruption. It is important to improve the system of management, and one of the key aspects is the enhancement of the governance systems (Adigun Wasilat Fayokemi & Bamidele Olumilua, 2023).

Integration with Modern Finance: It is important to note that there is a potential for developing the zakat and waqf systems compatible with modern Islamic financial technologies like fintech (Batubara & None Sibril Malasyi, 2024).

RECOMMENDATIONS AND CONCLUSION

Based on the findings of this research, we propose the following recommendations to enhance the effectiveness of Zakat and Waqf administration in Malaysia:

Firstly, there is an urgent need to improve awareness and understanding of Zakat and Waqf among the population. This can be well realized by employing elaborate and integrated publicity and public sensitization on obligations, calculations, and the general impact of such initiatives on the community. Therefore, integrating knowledge of Islamic finance such as Zakat and Waqf into the school curriculum may help inculcate an understanding of compliance from an early age.

Second, the enhancement of the administrative capacity of Zakat and Waqf through the development of digital platforms is now becoming essential in the present world. This entails the provision of friendly e-technology interfaces for Zakat computation, remittance, and management as well as the establishment of mobile interfaces for delivery of these services. Any such digital upgrade would also serve the purpose of catering to the expectations of the younger generation that is more digitally inclined and also enhance efficiency in collection and distribution processes.

Thirdly, there is the need to coordinate practices across the states without negating the sovereignty of the states since system cohesiveness is crucial for the effective delivery of services overseen by the NOMAC. To achieve this, the



formation of a federal-level coordinating body for Zakat and Waqf in the different states could be effective. This body could establish standard measures concerning the collection, distribution and reporting of such data to minimise such disparities besides aiding in proper planning and evaluation across the country.

Fourthly, the modernization of still Waqf management can be said to be another opportunity for the growth and development of the Waqf organization. This entails adopting new models of Waqf like cash Waqf and Corporate Waqf to expand the sources of funds. Adopting optimum Asset Management Practices relating to the Waqf properties could show a higher potential for Returns on Investment and Partnership with the private sector for Waqf development projects might open up new opportunities for welfare outcomes.

Lastly, revamping distribution channels is crucial to optimise the effectiveness of Zakat and Waqf funds that are being collected. Applying data analytics to target the appropriate people, designing programs that can solve the issues that lead to poverty, and engaging Non-Governmental Organizations and community-based organizations to facilitate better delivery of aid to the needy could greatly improve the socio-economic performance of these institutions.

This study has given an overall understanding of the present state of Zakat and Waqf administration in Malaysia and how it can be improved with reference to the best international practices. To the extent that it institutionalises these Islamic social finance mechanisms Malaysia has made commendable progress but several impediments still exist, this forms the research question of this study. Looking into the historical context of Zakat and Waqf administration in Malaysia, from voluntary collections to state-established organizations, Malaysia has remained a champion of using these tools for social causes. The current legal authorities for reclamation and distribution and the creation of separate organizations have increased the level of accountability. However, the decentralisation of these institutions across the various states has resulted in disparities in practices and efficiency.

Some of the areas that have been identified to have room for improvement through comparative analysis with Saudi Arabia, Indonesia and Singapore



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include the use of technology, standardization and public participation.

The empirical study reveals that the present practice of Zakat and Waqf administration in Malaysia has sufficient resources and a base on which improvement can be made for optimum socio-economic utilization and for achieving the development objectives of the country.

By implementing those recommendations, Malaysia can make improvements in the efficiency and effectiveness of the Zakat and Waqf, which will result in a higher rate of collection, effective distribution and the actualisation of the social-economic impact of these important Islamic financing institutions. This will in return help in the fight against poverty, improvement of the well-being of the people and standardization of the economy in the country.



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