



## Evaluation of Zakat as a Public Finance Instrument: Examples of Malaysia and Indonesia

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### ABSTRACT

Zakat institution has a special place both politically and financially in the history of Islam. In contemporary period, some of the Muslim-majority countries adopt the zakat institution as a public finance tool by centralizing collection and distribution channels. This study critically explores the political and financial motivations for the utilization of zakat as a public finance tool and the potential consequences of this choice by analysing Malaysia and Indonesia.

As for political motivation, the ability to manage zakat as a financial resource and direct the proceeds anyway the government deems fit centrally is significant. Furthermore, by actively incorporating zakat, the state may adopt and provide the appearance of religious identity in the eyes of Muslim citizens. Regarding the financial motivation, the state can use zakat funds to fulfil a portion of its duty to citizens as a welfare state, which would otherwise be carried out through tax revenue.

Although the integration of zakat might have some positive effects, integration process gives the state more control over how money is redistributed, including the ability to decide who receives what and how much, as well as the chance to give priority to recipients who can make greater contributions to the real economy.

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## 1. Introduction

In the contemporary period, one of the heated debates of Islamic economy is the role of the zakat (almsgiving) institution and how it can be utilized within modern state structure and capitalist market system since various methods have been followed for the collection and distribution of zakat. Some debates have a long history such as the comparison of zakat and tax, and whether tax payment can be a substitute for zakat payment. On the other hand, due to the transformations of societies such as the emergence of the market system and imagined political structure of the nation-state (Anderson, 2006), new debates have emerged as well such as the legitimacy of zakat collection by modern state or who should be prioritized among the beneficiaries.

Due to its intimate relation to wealth, zakat has a resemblance with tax payment, leading to a comparison between them and a discussion of whether one can substitute the other. Zakat as an institution has been part of Muslim societies since the very beginning through different channels of collection and distribution. While zakat is levied upon Muslims -under certain conditions- as a religious duty and considered as purification of wealth due to the right of others in the wealth, tax is levied upon subjects or citizens by the will of the ruling authority to fulfil certain responsibilities such as the defense of Muslims. Moreover, while tax is collected by the ruling authority and used at its will, zakat can be dispersed individually and should be transferred only to those determined by Allah as their right to wealth. Despite such substantial differences, however, there has always been a debate about whether one can substitute the other, or whether a modern state should provide a tax deduction for zakat payment.

Zakat has been financial worship performed mostly by individuals after the period of Uthman, the third caliph. Unlike the previous caliphs, Uthman left the responsibility of the zakat distribution of hidden wealth such as silver and gold to individuals (Bin Sellam, 2016). The martyrdom of the caliph and questioning the legitimacy of the rulers after him as a result of the political conflicts that occurred afterwards played an important role in discussing the legitimacy of the ruling authority to collect and distribute the apparent wealth as well (Bin Sellam, 2016). This discussion led to debates about whether zakat - both apparent and hidden wealth- can be distributed individually or, if not, who is in charge of the collection and distribution, the central authority or the local governments.

Following the emergence of the modern state structure, the socioeconomic structure and economic policies have changed in line with the changing political ground. During this process of transformation, particularly due to the secular nature of the modern state, the zakat institution has turned into a religious obligation and personal

disposition of individuals. However, in the last decades, some Muslim-majority states have initiated the integration of zakat institution as part of public policy of the state. Hence, another debate has become the utilization of zakat institution as part of the public finance tool of the welfare state structure along with tax collection, and the consequences of such policy.

This study aims to evaluate the integration process of the zakat institution into the modern state as a public policy tool with a particular focus on the motivation and consequences of this integration. A review of the literature suggests four main research strands regarding the centralization of zakat and its utilization as a public policy instrument. One strand explores the centralization of zakat from a political economy perspective by looking into the motivation of the state with the integration of the zakat such as Alias (2017) and Niswah (2021). The second research strand examines the efficiency of the centralization of the zakat (Ryandono et al., 2022; Wahab & Rahim Abdul Rahman, 2011) and ways and means to increase efficiency (Salleh, 2014; Utami et al., 2021), particularly regarding the institutional organizational structure in the East Asian countries where zakat institutions are common (Fahlefi, 2022). The third strand is related to how zakat funds have been utilized as a financial instrument for microfinancing (Nabi et al., 2021; H. A. Shiyuti & Al-Habshi, 2018). The fourth strand analyzes the relationship between zakat and tax, which is indirectly related to the topic of this research (Islamy & Aninnas, 2020; Mansor et al., 2019). This study falls within the first category which explores the integration of zakat institution from a political economy perspective and aims to fill an important gap in the literature by critically evaluating the motivations and consequences of this integration.

The understanding of the welfare state in the contemporary period causes Muslims to evaluate the practices in the classical period according to the institutional structure of the day. Since one of the functions of welfare states is to reduce inequality through redistribution of wealth, welfare states with Muslim majority populations have aimed to integrate zakat into the public policy mechanism of the state. Because the welfare state has a triple structure, namely interventionist, regulatory, and redistribution (Özdemir, 2007), the zakat institution has become an additional and legitimate financial resource in this context. Modern states such as Malaysia and Indonesia are pioneers in the utilization of zakat in this manner as a public policy instrument.

The rest of the paper is organized as follows: The next section compares tax and zakat. Then, in the third section, the collection and distribution of zakat as a public finance income by the modern state are analyzed. The fourth section presents examples

of Malaysia and Indonesia as two countries which use zakat as the public finance tool of the state. The article ends with the concluding remarks in the fifth section.

## 2. A Comparison of Zakat and Tax

In Islam, it is obligatory for a Muslim who fulfills certain conditions<sup>3</sup> to give zakat to individuals who belong to one of the eight groups mentioned in the Qur'an<sup>4</sup>. According to Muslim scholars, the verses related to charity revealed in Mecca aimed to encourage Muslims to share and help other Muslim fellows, while the verses revealed in the Medina period intended to internalize zakat as an institution for Muslims living under a political authority (Kılıç, 2017). Thus, zakat became a financial and religious duty with a specific framework (Duman, 2017). In the period of Prophet Muhammad, zakat officers collected zakat and brought them to Madinah with the objective of immediate distribution as ordered in the Qur'an (Duman, 2017). Until the third caliph, Uthman, the zakat on whole wealth had been collected by zakat officers upon the ruler's command. During and after the period of Uthman, however, the disposal of zakat on hidden goods such as money is left to the Muslims (Bin Sellam, 2016).

Besides zakat, ruling authorities of Muslim societies have also been collecting taxes with the objective of seeking financial security for the army and other public expenditures. Although the form of the political structure changes, the custom of tax collection has continued. In times of empires and monarchy, security and army needs were the main elements of tax. At the same time, the purpose of redistributing wealth and providing money flow to disadvantaged groups in the modern state structure have been the main causes of tax collection in the contemporary period. Despite the substantial differences between zakat and tax, similarities such as collection and distribution by ruling authority have led to perceiving zakat as a form of tax and discussing the possibility of zakat as a substitution of tax or vice versa.

Muslim societies have adopted various methods for the collection of zakat due to differences in socio-economic and political conditions. It is known that the Prophet appointed zakat officers to collect zakat. Until the period of the third caliph, Uthman, the collection and distribution of zakat were under the political authority of Madina. It is known that Uthman did not collect zakat from hidden goods (e.g., monetary goods)

<sup>3</sup> The Prophet's practices determine the amount required to pay zakat, and separate tariffs are applied for cash and goods. In the hadiths and the Sunnah, the tariff to provide the condition in cash is 80 grams of gold or its equivalent.

<sup>4</sup> Surat at-Tawba 60: "Alms-tax is only for the poor and the needy, for those employed to administer it, for those whose hearts are attracted [to the faith], for [freeing] slaves, for those in debt, for Allah's cause, and [needy] travelers. [This is] an obligation from Allah. As And Allah is All-Knowing, All-Wise".

and only received zakat on apparent goods (Bin Sellam, 2016). During the period of Omar bin Abdulaziz, the zakat collection officers had the authority of collecting and distributing zakat locally (Bin Sellam, 2016). In other words, following the expansion of the Muslim territories, the collection and distribution of zakat were decentralized.

The collection of zakat was considered one of the most critical components for Abu Bakr, who sent an army to the Arab tribes who refused to pay zakat (Boynukalin, 2017). In the period of Uthman, various debates arose in Muslim societies regarding the collection and distribution channels of the zakat. The event that triggered zakat's departure from the ruling authority at the initial point was the internal political conflicts that started with Uthman's martyrdom and the division of the Muslim community into groups. The behavior and persecution of the Umayyad dynasty governors, which was one of the two centers of power after the Caliph Uthman, paved the way for Muslims not to surrender their zakat to the Umayyad governors (Bin Sellam, 2016). Since the Umayyad caliphs appeared as both political and religious authorities and there was no authority and state legal personalities independent of individuals, they were not interpreted independently at that time.

The tax collected by the political authority from its subjects was different from zakat in terms of collection and distribution. While zakat is taken from certain goods<sup>5</sup> of a Muslim once a year, and its distribution is limited to the eight groups specified in the Quran, tax is collected without being subject to any quorum (*nisab* amount) and is a financial tool that can be taken from any person living under a particular political authority. After a political authority collects the tax, its distribution and usage areas are completely up to the authority's vision and promise. Tax, therefore, is a public income that the authority may collect by force. Tax is a financial instrument whose amount and frequency are determined entirely by the ruling authority and does not seek a strict accrual requirement as zakat does. In other words, the tax institution of a pre-modern or modern state is an element regulated by the political authority; hence its functioning, collection, and distribution are entirely in the legislator's will. Unlike a tax, the collection and distribution of zakat funds are determined by scriptural sources and the ruling authority is only a means for the collection and distribution, which can be changed as Uthman evidenced.

The tax has been an essential item of the central budget. Its legitimacy comes from being dominant, and it is assigned to the subjects or -in modern states- the citizens as a duty in exchange for undertaking certain public expenditures such as defence and -

<sup>5</sup> In Abu Ubayd's book, *Kitabul Amval*, he classified and detailed the goods subject to zakat as Animals, Commercial Goods, Jewelry, Agricultural products, and earnings. Detailed information about the goods subject to zakat can be viewed in the book of *Kitabul Amval*.

in modern states- public goods (*e.g.*, education, health, transportation, etc.). On the other hand, the legitimacy of zakat emerges from a divine command, and the ruling authority is a means to fulfil this obligation of Muslims.

Another debate as an outcome of similarities between zakat and tax is whether tax payment collected by the political authority can also be considered as zakat payment. In the state administration approach of the period, public institutions' needs and expenditures for providing security were met with the taxes collected from the subjects. Hence, Ahmed bin Hanbal adopted the idea that the tax paid to tax officers would replace zakat if the tax were given with the intention of zakat (Düzenli, 2017). Ahmed bin Hanbal, who accepted it conditionally, adopted the idea that giving zakat should be done with purpose. On the other hand, other scholars such as Ibn Hajar al-Haytami stated that the tax structure is not compatible with zakat and argued that tax payment cannot be considered as zakat payment (Düzenli, 2017). According to Qaradawi, a contemporary scholar, zakat and tax are two separate institutions, and paying a particular tax does not eliminate the obligation of paying zakat (Düzenli, 2017).

The debate of tax-zakat substitution in *fiqh* is an ongoing discussion. When we compare zakat with tax as a financial tool in all state administration approaches from the past to the present, it is seen that it bears little resemblance. The claim that the political authority in the Madina period, which did not have a robust political organization structure like the Byzantine and Sassanid, wanted to hold power in the collection and distribution of zakat is also not valid. It is known that, until the time of Uthman, the caliph and his agents were given zakat, but this did not work as a law, and people were given a permit to divide their zakat individually. Abu Ubayd, in his book *Kitabu'l Amval*, stated that Caliph Omar allowed free people who does not receive any income from the *Bayt al-Mal* (treasury), to distribute the zakat themselves (Bin Sellam, 2016). In addition, Caliph Ali and Abu Huraira stated that the people can dispose of zakat themselves to those who do not receive *atiye* (a kind of allowance) from Bayt al-Mal (Bin Sellam, 2016). During the Umayyad period, it was observed that the Muslim people were hesitant to hand over the zakat due to the arbitrary and non-Islamic behavior of the Umayyad governors, and they needed to be divided individually due to the view that the zakat was not given to right places (Bin Sellam, 2016).

Although the zakat institution continued in the post-Prophet era with an established framework, states and political authorities also collected taxes from their subjects in addition to zakat. The tax was an indispensable financial tool for certain services' continuity, mainly with the aim of covering military expenses. Although Islamic scholars have different views about the approval of the tax, it has been the most potent source of the state treasury from the past to the present.

After Islam crossed the Arabian Peninsula, the fiscal system had a severe interaction with thousands of years of state organization understanding, such as Persian and Byzantine. As the lands widened, the unique features of zakat kept it from being used as a means of public finance. Zakat was a liability on the payer of zakat once a year, but the tax was a powerful public finance instrument determined under the state's monopoly. The authorities collected tax to cover public expenses related to sovereign power, security, trade, and the military. The *mültazim* system of the Ottoman (Matuz, 1991) was an example of a tax collection for military expenditures in a decentralized manner. Abu Ubeyd stated that Omar Bin Abdulaziz declared that the collected zakat in a certain region should be used in the same region and not be transferred to the central treasury (Bin Sellam, 2016). Thus, the local authority was able to maintain its position vis-à-vis the center. In the modern state, on the other hand, we witness a strong central authority which strives to collect income in the form of tax or similar types at the center and distribute it from the center to those who it sees fit. As we explore in the subsequent sections, such a centralized power which decides who becomes beneficiary can also define who deserves the benefits.

### 3. Zakat as a Public Finance Tool of the Modern State

Following the decolonization process, Muslim societies established a new political formation in the form of the nation-state. The nation-state was an understanding of political organization based on secularism which enacted its own laws and enforced these laws by force. Muslim societies tried to melt these confusions of concepts and values in the same pot, leading to multiple modernities (Eisenstadt, 2000). Despite the secular nature of these emerging modern states, the states in the Islamic geography regulated the society and the market to fulfill the main requirements of religion. Financial institutions have been established in various Muslim countries, especially Malaysia and Indonesia. Furthermore, laws and frameworks related to zakat have been established, and efforts were initiated to make the zakat institution an element of public finance. The notion of institutionalized zakat in Malaysia was regulated in 1991 (Sarif et al., 2020). In Indonesia, on the other hand, various regulations during the Dutch colonization period and a law draft in 1967, after it has become independent, paved the way for the institutionalization of zakat (Hidayati & Tohirin, 2010). Besides the institutionalization of zakat at the state level in Muslim societies, modern states also collect taxes to ensure the continuity of public expenditures in line with the development of changing world order and the understanding of citizenship.

As part of the welfare state vision, modern states in the contemporary period aim to provide equitable distribution of income and social justice with redistribution of wealth through taxes. In Muslim-majority states in which zakat as a state institution is also established, zakat as the right of the poor over the wealthy is collected by the sovereign state in addition to the compulsory tax. In other words, the zakat of hidden wealth was reintegrated into public finance in the modern state, which was carried out by the individuals after the period of Uthman (Hudayati & Tohirin, 2010). The centralized nature of the modern state and available technological tools have facilitated this opportunity in the contemporary period. The established zakat institutions carry out the process of collecting and distributing zakat without obliging Muslim individuals. We argue that the integration of zakat institution into the modern state structure as a public finance tool in this way has both political and financial motivations.

The political motivation for the functioning of the zakat institution under state supervision is its desire to be the only power that controls the monetary system in the lands where the modern state is the ruler and channels the funds, in some cases, according to the political agenda. The political authority in Malaysia, for instance, as a country where multiple ethnicities live together, aims to use zakat instead of transferring payment in public finance to make the native Malays a strong middle class (Alias, 2017). The modern state puts itself in the position of tutelar, guardian, and guiding of the financial and monetary actions of all its citizens, who are bound to it by the bond of citizenship, within the institutional borders. Centralized zakat collection and distribution means that the state does not want to share the control of monetary mobility with any other authority. Furthermore, by undertaking a facilitator role in the fulfilment of the religious obligations of Muslim citizens, the state -despite its secular nature- justifies its identity as religious hybridity. Moreover, the sovereign state regulates the worship within state laws and ensures the legitimacy of the work by ensuring that it is performed without interruption. However, it is a matter of debate whether the *zakat* institution can become a financial instrument of the modern state from the perspective of Islamic economics due to the discussions related to Islamic law in relation to the suitability of *zakat* as an institution as part of the bureaucracy of the modern state (Bardakoğlu, 2017).

As for the financial goal, the state can realize the transfer of money from wealthy citizens to the poor through zakat and fulfill part of its obligation towards citizens as a welfare state, which should be carried out by the tax income otherwise. In this way, the nation-state has the opportunity to resolve inequalities among the segments of the society with additional resources. In the next section, we will evaluate the zakat



institution as part of a modern state institution through the examples of Malaysia and Indonesia.

#### 4. Zakat as a Nation-State Institution: Examples of Malaysia and Indonesia

With the rise of neoliberalism, from the 1980s onwards an unprecedented financialization period has begun in the world thanks to the facilitatory role of the International Monetary Fund and the World Bank. Muslim societies, which started to gain their independence after 1945, followed the financialization process in the world in their economic and political organization structures. On the other hand, due to the conventional nature of the financialization process, Muslim societies such as the Gulf Cooperation Council, Pakistan, Malaysia, and Indonesia needed an Islamic financial sector to keep the money *halal* and benefit from the wealth brought by various natural sources and other means (Asutay, 2010). Emerging Islamic financial sectors also provided governments with public finance instruments such as *sukuk*, through which public financing would be possible in the global financial markets Islamically (Shaikh, 2015). Furthermore, at the local level, countries such as Malaysia and Indonesia have taken steps to gradually centralize the zakat collection process and integrate them into the public finance structure of the country (Hidayati & Tohirin, 2010).

We may examine the development of zakat institutions in Malaysia at the institutional level in two periods, the pre-1990 and post-1990 periods. In the context of the historical development of zakat in Malaysia during the pre-1990 period, the first steps of becoming a central institution had been taken by the establishment of a parliament called Majlis Agama Islam Negeri (MAIN) in each state gradually, which was responsible for zakat collection and management among other Islamic obligations and Malay culture in Malaysia (Rahman et al., 2012). After the 1990s, however, the zakat institution is privatized, even though continued to operate as a subsidiary of MAIN (Rahman et al., 2012). Following the privatization, the role of the zakat institution as a financial tool has gradually increased relative to the tax revenues, from 0.2% in 1991 to 1.4% in 2014 (Migdad, 2019).

When we compare zakat and tax revenues collected in Malaysia, a big difference is evident (Migdad, 2019). Some of the reasons for the such difference might be the lack of awareness (Ali et al., 2017), not trusting the payment of zakat via institutions (Embong et al., 2013), the inefficiency of the zakat institutions (Wahab & Rahman, 2013) or governance-related issues (Saad et al., 2017). Since the ratio of collected zakat to tax increased seven times between 1991 and 2014 (Migdad, 2019), we can argue that such

impediments are decreasing. Besides, tax is collected from every citizen unlike zakat, which is paid by only Muslims. Also, taxable items are more in terms of quantity compared to the items included in the zakat calculation. As we have stated before, zakat's unique characteristics prevent it from being used as a severe public finance instrument. Hence, as seen in its historical development, states preferred the tax to finance public expenditures.

It is understood that zakat still shows increasing momentum in Malaysia. Especially after the 1990s, the zakat institution was seriously regulated and various provinces established and privatized zakat institutions (Rahman et al., 2012). After the 1990s, zakat revenues increased cumulatively and became an important transfer payment due to the increased efficiency (Müller, 2017). Furthermore, privileges such as tax deduction due to zakat payment on personal and company income are applied to encourage zakat payment (Islamy & Aninnas, 2020; Mansor et al., 2019). Such regulations may direct citizens to state-regulated zakat institutions (Aydin & Odabaş, 2018) and explain the reason why zakat has been in a steady increase, especially since 1991. Increasing technological possibilities and decreasing stationery and bureaucratic expenses also contributed to the increase in the amount of collected zakat (Terzi & Bilen, 2020).

Zakat institutions in Malaysia were not only regulated as transfer payments for individuals but also collected to support small-scale entrepreneurs (Adnan et al., 2019; Binti Ismail & Bin Hussain, 2017; Müller, 2017; H. B. A. Shiyuti et al., 2021). Zakat institutions provide capital for small-scale enterprises within the scope of the economic development plan, a supply of business equipment needed for business, as well as business financing from the structure of zakat institutions (H. A. Shiyuti & Al-Habshi, 2018). Through this method, Malaysia provides the substitution of loans and grants it will provide to businesses from its own annual budget with zakat revenues. In this way, it reduces an important item for subsidies to enterprises such as transfer payments from public finance and increases the effect of the collected zakat on the real economy. Thus, the zakat fund reached various segments of society and strengthened the legitimacy of regulating zakat in the hands of the state with the state fund management policy. However, as an outcome of this regulation, the collection of zakat funds is utilized as a means to capital accumulation to provide businesses with the required capital. Hence, among the eight groups of beneficiaries stated in the Qur'an, those who can contribute to the real economy are prioritized in line with the principles of capitalism. For instance, although it is sufficient to be a poor or needy person to be a recipient of zakat, prioritizing those who can actively contribute to the economy as a productive individual

after zakat payment may cause people who are poor and unable to work fail to receive any money.

In addition to Malaysia, Indonesia has also made zakat regulations. Throughout the colonial period of Indonesia, which had been subjected to Dutch colonialism until 1945, the governments had not interfered with the zakat affairs (Juwaini, 2017). After the second part of the 1960s, however, the central government has shown interest in the collection and distribution of zakat and issued several laws (Juwaini, 2017). With the zakat law enacted in 1999, the zakat institutions were transformed into two separate institutions as Badan Amil Zakat (BAZ), which is a state-owned institution, and Lembaga Amil Zakat (LAZ), an institution belonging to the civil society (Hidayati & Tohirin, 2010). However, zakat payment has been a voluntary act in Indonesia (Purbasari & Fauzan, 2018).

Even though zakat institutions aim to take an effective role in collecting and distributing zakat, the process of collecting zakat through individuality and the mosque community is still a living reality in Indonesia. According to the 2021 annual report of the BAZNAS, 60% of respondents in a survey paid their zakat through mosques or directly hand over to zakat beneficiaries (Baznas, 2021). Despite this, it seems that the amount of zakat collected through zakat institutions exceeds 10 trillion Rupees. BAZNAS LAZ institution, which has been separated from the public zakat institution and privatized, is the zakat institution with the largest share in collecting and distributing zakat institutions with 36 percent in 2019, as shown in Table 1 (Baznas, 2021).

**Table 1: National Collection and Distribution in 2019**

| No | Types of OPZ      | Collection (Rp)           | Percentage (%) | Distribution (Rp)        | Distribution Percentages (%) |
|----|-------------------|---------------------------|----------------|--------------------------|------------------------------|
| 1  | BAZNAS            | 296,234,308,349           | 2.90           | 270,716,950,765          | 3.12                         |
| 2  | BAZNAS Provincial | 583,919,722,674           | 5.71           | 481,796,534,289          | 5.55                         |
| 3  | BAZNAS Municipal  | 3,539,980,546,674         | 34.61          | 2,586,872,888,351        | 29.77                        |
| 4  | BAZNAS LAZ        | 3,728,943,985,109         | 36.46          | 3,519,873,720,039        | 40.51                        |
| 5  | OPZ under         | 2,078,865,243,749         | 20.33          | 1,828,961,140,910        | 21.05                        |
|    | <b>Total</b>      | <b>10,227,943,806,555</b> | <b>100</b>     | <b>8,688,221,234,354</b> | <b>100</b>                   |

Source: (Baznas, 2021)

**Table 2: Zakat Distribution Based on Categories**

| Asnaf                             | 2019 Total Fund          | %            |
|-----------------------------------|--------------------------|--------------|
| People in poverty                 | 4,548,830,039,349        | 66.3         |
| Amil                              | 640,781,521,988          | 9.3          |
| Mualaf                            | 38,366,907,786           | 0.6          |
| Riqab                             | 5,353,091,626            | 0.1          |
| Gharimin                          | 154,776,926,045          | 2.3          |
| Fi Sabilillah                     | 1,364,846,701,772        | 19.9         |
| Ibnu Sabil                        | 106,304,904,876          | 1.5          |
| <b>Sub Total</b>                  | <b>6,859,260,093,444</b> | <b>100</b>   |
| OPZs in Institutional Assistancen | 1.828.961.140.910        | 21,05        |
| <b>ZIS Total Distribution</b>     | <b>8.688.221.234.354</b> | <b>121,1</b> |

Source: (Baznas, 2021)

In terms of the distribution of the zakat fund, people in poverty receive the highest percentage of the fund (66.3%) followed by people “Fi Sabilillah” (in the way of Allah). Table 2 presents the distribution of the zakat fund among the zakat beneficiaries.

Although regulations seem to be in favor of civil society compared to Malaysia's regulations, the authority and control mechanism continue to be in the hands of the central government through the Directorate of Religious Affairs (Juwaini, 2017). Indeed, through the law enacted in 1999, the government has aimed to restructure the zakat institution to be implemented in a top-down manner following the example of Malaysia (Adachi, 2018). The state-sponsored Badan Amil Zakat Nasional is headed by the Directorate of Religious Affairs, and state control applies to both institutions (Terzi & Bilen, 2020). With the governmental regulations, the amount of zakat collected increased by an average of 39% per year and reached 327 million dollars as of 2020 (Terzi & Bilen, 2020).

In Indonesia, the modern state legislator uses its authority to consolidate the position of zakat in the public environment. For instance, the council of the ulama gave a fatwa stating that the zakat funds could be transferred to the health sector or the economic sector to reduce the effect of the pandemic. Indonesia uses its public power for a change in terms of who will be given the zakat and where it will be transferred, contrary to the groups specified in Qur'an. In addition, in the 5-year perspective of BAZNAS, the country's largest zakat fund, there is a tax exemption to increase the

number of taxpayers who give zakat, since it is still a common practice in Indonesia to give zakat directly to mosques or individuals.

One of the main reasons for the increase in the amount of collected zakat every year is the direction of the state apparatus. Improving the zakat collection system, informing people better, and increasing their awareness enable the zakat figure to gain momentum every year (Aydın & Odabaş, 2018). In this way, the state reduces the social security expenditure items in its own budget and creates an element of social solidarity. This might relieve the natural tension between the poor and the rich, the two classes of the financialized world, without extra burden on the budget. The nation-state also conducts social engineering by paving the way for the financialization of zakat. Pioneering the collection and distribution of zakat by assuming the identity of an Islamic state provides the state with alleviating the side effects of the financialized world and its impact on society.

The key points of centralization of zakat collection and distribution processes and integration of zakat as a public finance tool in Malaysia and Indonesia can be summarized as four themes. First, the centralization process provides an additional source of income for the state to fulfill its duty to provide welfare to the citizens, which should have been fulfilled by the taxes. Second, thanks to the tax deductions for zakat payers, Muslim citizens avoid paying zakat in addition to tax, unlike non-Muslim citizens, which removes the monetary disadvantage of Muslim citizens. Third, the state might collect zakat more efficiently and with low transaction costs and channel the zakat funds to the right people, according to the definition of “right people” determined by the state. Fourth, the state might possess an Islamic identity, particularly in the eyes of Muslim citizens by involving in zakat-related issues.

Although integrating zakat institution into the state bureaucracy has important advantages as summarized above such as efficiency and low transaction costs, particularly thanks to the utilization of financial technology in collecting and distributing zakat money, one of the important consequences of this process is that the power of deciding who gets what and how much is given to the central authority. This outcome might not be negative necessarily as the state, with the resources it has, might channel the funds to the neediest citizens. However, such power might also deprive some citizens of the zakat money they deserve due to political reasons or lack of fulfilling the demands of the state.

Another important consequence is that the prioritization of individuals who can contribute to the real economy with the help of zakat funds over the others included in the eight groups of people who deserve zakat might cause individuals with an extreme need and consume the received zakat fund for consumption to practically excluded from

being a recipient. This is particularly an outcome of capitalist social formation, yet the states prioritize production and expect citizens to be productive as it is the measure of development in the contemporary period.

## 5. Conclusion

Zakat has occupied an important place in Muslim societies since the day it was commanded as financial worship. The definition, collection, and distribution of goods for zakat have always been the subject of controversy, as seen from the early times of Muslim societies to the present. Particularly, the collection and distribution channels have been a topic of debate from the time of the Prophet Muhammad to the present day.

In the contemporary period, a tendency toward collecting and distributing zakat through both public institutions and private organizations in Muslim-majority states can be observed due to both political and financial motivations of governments leading to important consequences. As for political motivations, the power of controlling zakat centrally as a monetary resource and channeling the funds the way the government sees appropriate is important. Malaysia, for instance, uses the power of zakat in fiscal policy and control the redistribution of wealth in a multinational society with the objective of making the Muslim Malay population middle class. In order to increase the functionality of zakat institution, Malaysia provides tax deductions to zakat payers as an outcome of a tax exemption law to prevent the double taxation of Muslim citizens. In this way, it promotes the zakat payments and transfer of money among Muslims through state institutions. As for Indonesia, a fatwa is issued regarding the utilization of zakat funds for the health and economic sector due to the pandemic provides an additional source of monetary income for the state. Furthermore, the state might assume and give the impression of religious identity in the eyes of Muslim citizens by directly involving zakat. As for financial motivation, the state attains an additional source of income to provide its citizens with welfare benefits and alleviate income inequality within society.

Apart from the *fiqhi* debates about whether the modern state can or should control the collection and distribution of zakat, it is important to approach the centralization of zakat institution by the state from a political economy perspective to evaluate the motivations and consequences of such process. As mentioned, the state might have political and financial motivations to control the collection and distribution of zakat centrally. Although the outcome of this process might have some positive consequences, an important risk has arisen from such a process. That is to say that this process provides the state with more power to organize the redistribution of wealth in

terms of deciding who gets what and how much as well as the opportunity to prioritize beneficiaries who can contribute to the real economy more.

**Etik Kurul Onayı:** Etik kurul belgesi gerektiren bir çalışma değildir.

**Hakem Değerlendirmesi:** Dış bağımsız.

**Yazar Katkıları:**

Ömer Bayraktar <sup>ID</sup> - Fikir ve Amaç, Planlama ve Tasarım, Veri Toplama, Veri Analizi ve Tartışma, Literatür ve Atıf, Yazım ve Format, Son Onay ve Sorumluluk, Genel Katkı Düzeyi - % 50.

Harun Şencal <sup>ID</sup> - Fikir ve Amaç, Planlama ve Tasarım, Yöntem, Veri Analizi ve Tartışma, Yazım ve Format, Son Onay ve Sorumluluk, Genel Katkı Düzeyi - % 50.

**Çıkar Çatışması:** Yazarlar herhangi bir çıkar çatışması bildirmemiştir.

**Finansal Destek:** Yazarlar bu çalışma için finansal destek almadığını beyan etmiştir.

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