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PRE-REQUISITES FOR EFFECTIVE INTEGRATION OF *ZAKĀH* INTO MAINSTREAM ISLAMIC FINANCIAL SYSTEM IN MALAYSIA

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ABSTRACT

As factors of effectiveness of zakah institutions, this paper discusses the importance of a) objective and fair measure of zakah on business wealth, b) standardizing zakah accounting practices and c) developing performance measure system. The reference context is Malaysia. However, the discussion is of general relevance in formulating policies to integrate zakah in Macro-economic systems effectively.

INTRODUCTION

Zakāh is the third of the five basic pillars of Islamic faith. The term *zakāh* has three different connotations. One is linguistic, the second one is theological, and the third one is legal (Muhamad, 1980). Linguistically, *zakāh* means cleansing or purification of something from dirt or filth. It also means praise, growth, and increase. Theologically, it means spiritual purification resulting from giving *zakāh*. Legally, *zakāh* means transfer of ownership of specific wealth to specific individual or individuals under specific conditions.

In Islam all resources belong to Allah and the wealth is held by human beings only in trust. The payment of *zakāh* means the Muslim has obeyed Allah, which gives the individual spiritual satisfaction (Sabiq, 1985). Some scholars also argued that *zakāh* helps individuals to overcome the unwelcome trait of greed (Al-Fanjari, 1982). *Zakāh* is also a part of a social system of Islam as the social goals of *zakāh* indicate that Allah has given the poor right in the wealth of the rich. Thus, *zakāh* acts as a mechanism for the distribution of wealth, which helps closing the gap between the poor and the rich (Kahf, 1997). This increase in purchasing power of

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the poor, in theory, should contribute positively to economic growth through an increase in consumption expenditure and aggregate demand (Murinde et. al., 1995).

Early generation of Islamic economists viewed the prohibition of *riba*' and injunction of *zakāh* as two main cornerstones of the Islamic economic and financial system. The prohibition of *riba*' has culminated into the establishment of Islamic banking system. Over the years, Islamic banking (read, interest-free banking) is now regarded as the defining characteristic of an Islamic economic system (Kuran, 1995). The role of *zakāh*, however, has been very insignificant in the mainstream Islamic financial system. In brief, the model of Islamic commercial banking may be more compatible to the capitalist system, and, thus more acceptable to the mainstream financial system. However, *zakāh* has been considered as social welfare function and, thus, may be less acceptable to the capitalist proponents.

The main objective of this article is to explore the challenges to effectively integrate *zakāh* into the mainstream Islamic financial system in Malaysia. The article argues that for *zakāh* to play a prominent role in the mainstream Islamic financial system, the following three pre-requisites need to be addressed by the concerned authorities:

i) Developing objective and fair measurement of *zakāh* on business wealth;
ii) Standardizing *zakāh* accounting practices; and,
iii) Developing proper performance measurement system.

OBJECTIVE AND FAIR MEASUREMENT OF *ZAKĀH* ON BUSINESS WEALTH

The basic principle of *zakāh* on business wealth is based on *urud at-tijarah* (trade goods). It means anything obtained for the purpose of trade for profit (Al-Qardawi, 1999). *Zakāh* on business wealth should be paid once a year (haul) at the rate of 2.5% as in the case of *zakāh* on money wealth. Minimum exemption limit (*nisab*) should be in excess of 85 grams value of gold.

The basic principles of *zakāh* that make a person obligatory to pay shall apply accordingly in the case of *zakāh* on business wealth. As appropriately been summarized by Clarke et. al (1996) *zakāh* is payable on " (i) genuinely owned wealth, (ii) productive, (iii) and surplus assets that have been (iv) owned for a full year". Thus, fixed assets that been used by the business such as office buildings, furniture or delivery vehicles are exempt, provided they are not for trade.

Business wealth subjected to *zakāh* t includes trade assets such as trade goods (or stock on trade); cash in hand or at bank; debts or credit extended to customers or others (i.e. debtors). According to Al-Qardawi (1999), trade liabilities should be deducted from assets and only the net is subjected to *zakāh* (i.e. working capital or net current assets) to truly reflect the financial position of the business. This method is also the most common method currently practiced by many state religious authorities in Malaysia. Al-Qardawi (1999) also asserted that in the case of bad debts, many scholars recommended it to be exempted.

The business activities in our time are very complex. The sources of financing are not only from share capital and availability of cash. In a modern business environment the current assets are not directly financed by (and only by) capital and short term liabilities. As a result the net current assets or the net owner's equity method may not be a reliable method of measurement. The vast increase in the size of economic units and large corporations has opened many new avenues for raising capital through short term and long term financing. As a result it is difficult to relate the sources of funds to the applications of funds and to determine relationship between them. Thus, the traditional method of measurement may not reflect the true and fair amount of net current assets leading to the inappropriate amount of *zakāh* due.

It is of no surprise if we find some large and profitable companies listed in the Bursa Malaysia to have negative net current assets i.e. current liabilities are significantly more than current assets. These companies may be exempted from paying *zakāh* but ironically they are profitable companies. The accountants may not have difficulties to comprehend this situation as many large companies are normally relied on short term loans to finance their business activities.

In summary, the net current assets will be overvalued if the long term debt is used to finance current assets and the net current assets will be undervalued if short term debt is used to finance fixed assets, pay off long term debt, or reduce capital stock (dividends). Therefore, it is proposed that to address this deficiency the so called net growing capital method is adopted (El-Badawi and Al-Sultan, 1992). Consequently, the net current assets at the end of the year should be adjusted by adding back with the items such as the short term debts used to finance fixed assets, pay off long term debt or reduce capital stock and subtracting long term debts used to finance current assets.

The main problem of net growing capital method is the requirement of full disclosure on the use of funds within a business entity. If the business entity keeps proper accounting system and record of business transactions, the task will be straight forward. However, it becomes a difficult task for the religious authority as an external *zakāh* collector to compute the zakatable amount and *zakāh* due if they could not get the full cooperation and required disclosure of the business entities concerned.

Another related issue on *zakāh* for business wealth is to ensure fair measurement of *zakāh* paid by the corporations. In the case of *zakāh* on business wealth, the federal government is yet to provide tax rebate for business entities that pay *zakāh* on business wealth. In a way, Islamic business entities such as Bank Islam Malaysia Berhad (BIMB) and Lembaga Urusan dan Tabung Haji (LUTH) are burdened with two charges i.e. corporate tax and *zakah* on business wealth. This the emergent need for the government to provide for full corporate tax rebate for corporations that have paid *zakāh* to recognized *zakah* institutions. As far as current *zakāh* law in Malaysia is concerned, *zakah* is within the jurisdiction of the state and under the authority of SIRCs (MAI). The federal government has no jurisdiction on *zakāh* but however provides deduction from income tax for the amount of *zakāh* paid by the individual Muslims to the recognized institutions such as MAI.

It is expected that Muslim owned companies should pay *zakāh* on business wealth as part of their obligations towards the rightful recipients of *zakāh*. If the government allows companies that pay *zakāh* on business wealth to claim rebate from their tax liability, this will consequently ease their financial burden. Furthermore, the tax rebate will serve as an incentive for Muslim majority owned companies which have not paid in the past to pay *zakāh* on business wealth.

The fact that the Malaysian Constitution recognized religion and custom as part of the jurisdiction of state and under the supreme authority of the Sultan does not mean that *zakāh* t institution is outside the purview of the Federal Government. This constitutional set up however, should not prevent government from taking pro-active steps to realize the potential role of *zakāh* institution. This effort is in line with the fact that Islam is the official religion of the country. It is also incumbent upon the government to establish social justice by recognizing and promoting *zakāh* institution. This type of effort can be considered as one of the primary role or *raison detre* of a government (Abdul Rahim, 2003).

As it has been argued earlier, *zakāh* is an institution prescribed by Allah SWT with intrinsic benefits to help the poor and needy. Economically, in theory, it is expected to contribute towards economic growth of the country. In the context of *zakāh* on business wealth, the corporation can fulfill their social accountability to the public and at the same time portray a positive image of the *zakāh* paying corporation in a Muslim society. The government in this case by providing tax rebate for corporations in effect encourages the corporate sector to assist the government in reducing the sufferings of the less fortunate in the society.

STANDARDIZING *ZAKĀH* ACCOUNTING PRACTICES

The main purpose of harmonizing *zakāh* accounting practices through the promulgation of accounting standard is to narrow the areas of differences among firms in the disclosure, method of *zakāh* measurement, and method of presentation of financial information in financial statements and financial reports. This will ultimately improve the quantity and quality of information in published financial reports (Hendriksen et. al., 1992). In this context, accounting standard for *zakāh* is needed as it would:

i) Help Islamic banks and other Islamic business entities to perform *zakāh* obligations;
ii) Enable to reduce the differences exist on the methods used by Islamic banks and other Islamic business entities in measuring *zakāh* and valuing assets subjected to *zakāh*; and
iii) Help to improve the quality of disclosure on *zakāh* information in the financial statements of the Islamic bank and business entities.

In order for the Islamic financial institutions and business entities to perform the role effectively, accounting standards need to be complied with by Islamic banks and business entities. The development of such standards must be based on clear objectives of financial accounting and agreed upon definitions of its concepts.

Allah SWT said:

> *"We shall set up justice scales for the day of judgment, not a soul will be dealt unjustly in the least. And if there be (no more than) the weight of mustard seed, we will bring it (to account); and enough are We to take account" (Al-Qur'an Chapter 21, verse 47).*

> *"O you who believe! When you deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing" and "Let a scribe write down faithfully as between the parties" (Al-Qur'an Chapter 2, verse 282)*

The above verses indicate that the objectives of accounting should be to ensure fair and just financial transactions between human beings. Accounting information is expected to fulfill the needs of those who are in need or expected to require such information. In addition, the primary objective of accounting information must be to fulfill the ultimate accountability to Allah SWT.

In addition to fulfill the ultimate accountability to Allah SWT, the preparers of financial information must know the common information needs of users of financial reports. Common information needs of the users are normally consist of the needs for information which can assist in evaluating the entity's ability in using its economic resources and fulfill its obligations. In this respect, AAOIFI's SFA 1 has broaden the scope beyond just economic responsibilities to encompass information that can assist in evaluating the entity's compliance with the principles of *Shari[ah* and its ability to carry out social responsibilities specified by Islam.

Accounting and Auditing Organization of Islamic Financial Institutions (AAOFI) based in Bahrain has issued a Financial Accounting Standard for *zakāh* (FAS 9) effective from 1st January 1999. In Para 1 of FAS 9, they make it clear that the scope of the standard is to provide guidelines for the accounting treatments related to the determination of the *zakāh* base, measurement of items included in the *zakāh* base and disclosure of *zakāh* in the financial statements of the Islamic banks and other financial institutions.

Even though AAOIFI's FAS 9 has not been adopted the Bank Negara Malaysia (BNM) and Malaysia Accounting Standards Board (MASB), it is worth to consider the main recommendations of AAOIFI FAS 9. As far as the conventional standards are concerned, there are no guidelines on *zakāh* to refer to in Malaysia. Accounting standard on *zakāh* will satisfy the need of interested users of *zakāh* financial information especially State Islamic Religious Councils (SIRCs) (to know how the companies measure *zakāh*, and where they pay *zakāh*, etc.); Lembaga Hasil Dalam Negeri or the government (to be informed of *zakāh* liability and the financial burden of business entities currently paying both *zakāh* and tax); the Muslim shareholders and investors (to be informed of their *zakāh* obligation), and perhaps the Muslim public at large as well.

Accounting Treatments on *Zakāt*

AAIOFI FAS 9 in Para 2 required the use of different rates for different calendar year used. The standard prescribed 2.5% rate for the entity that used lunar calendar and a slightly higher rate of 2.5775% for those who used Hijrah calendar. This is to compensate for the less number of days per year in the case of Hijrah calendar. In Malaysia, the normal requirement of companies and banks are to use the lunar calendar rather than Hijrah calendar, and thus, the rate to be applied is a standard rate of 2.5%. The provision for alternative rate for different calendar used is unnecessary and irrelevant in this case.

The same paragraph proposed two methods of *zakāh* measurement namely Net Assets (Net Current Assets) method and Net Invested Funds (Net Owners Equity) method. Since all SIRCs in Malaysia used Net Current Assets as the basis of measuring *zakāh*, it is suggested that a more specific term such as Net Current Assets method be used as a term in order to avoid misunderstanding as to the types of items to be included for measurement purposes.

However, the net current assets method may not be able to capture the flow of funds within an entity and as a result the measurement may not reflect the true and fair zakatable amount and *zakāh* due. It is suggested here that the standard should also include a provision of method to be used namely net growing capital method with an example to highlight the adjustments needed provided the necessary information can be obtained. This will hopefully enable a true and fair zakatable amount and *zakāh* due can be determined.

AAOIFI's FAS 9 required *zakāh* to be treated as a non-operating expense of the Islamic bank and included as a deduction from net income. This requirement is considered appropriate as it reflects the financial obligation of the entity. The same goes in the case of unpaid *zakāh* (para 9) that it should be treated as a liability of the Islamic bank.

Valuation of Assets

The FAS 9 in Para 5 on the valuation of assets subjected on *zakāh* recommended cash equivalent value as the basis of valuation. As indicated in Appendix D (FAS 9: page 297), this is in order for the *zakāh* base to include the historical cost and any holding gains (losses). This rule makes it inconsistent with the generally accepted accounting practice (GAAP). According to GAAP, inventories should be valued at the lower of cost or market value. In practice, this rule almost always results in "cost" being the balance sheet valuation (Clarke et. al., 1996). As the valuation of *zakāh* shall always be based on market value (Al-Qardawi, 1999), this means that valuation basis of assets for *zakāh* purposes should be an exception to the normal rule.

It is important to note that a specific provision need to be made as conceptually *zakāh* is payable only on those receivables expected to be realized (Clarke, 1999). In the case of valuation of accounts receivable, FAS 9 did not make specific that *zakāh* needs to be charged on net receivables i.e. accounts receivable less provision for bad debts.

Anglo-American accounting follows the concept of conservatism or prudence as the concepts refers to the need to exercise care when dealing with uncertainties. This is to ensure that assets and revenues are not overstated and liabilities and expenses are not understated. This, however, is inconsistent with the concept of *zakāh* as understanding assets would mean less *zakāh* liability. *Zakāh* is one of the most important religious duties to care for the poor and needy and Islam encourages Muslims to be generous with their wealth.

In the context of *zakāh*, fairness also means that we also have to be fair to *zakāh* payer as well. The valuation of assets based on cash equivalent value rather than based on historical value, and with provision for bad debts rather than on gross receivables, in theory, should serve justice to both *zakah* payer and *zakah* recipient simultaneously.

Disclosure Requirements

The preparation of financial information in Islam should be aimed among others for *zakah* purposes. The aim for *zakah* purposes may lead to the need of periodicity assumption as *zakah* is only paid once a year. The periodicity assumption has led to the development of accruals accounting, and the principles of income recognition and matching. Therefore, accounting statements would, therefore, be prepared for that particular period, showing the amount of which *zakah* would be levied.

The implications of Islamic accountability on accounting is that the management and providers of capital need to be accountable for their actions (or in-action) both within and outside the firm by providing proper accounting and reporting. Thus, the Islamic concept of social accountability departs from the western attitudes of private accountability.

The concept of social accountability in Islam is also related to the principle of full disclosure. Full disclosure does not mean to disclose everything down to every minute detail of transactions. There is, however, the need for the preparer of account to disclose everything that is believed as importance to users for purposes of serving Allah SWT. In a more precise word, AAOIFI’s Statement of Financial Accounting No. 2 on Concepts of Financial Accounting for Islamic Banks and Financial Institutions (SFA 2) made it very clear that the Islamic concept of disclosure revolved around the concept of “adequate” disclosure. Here, adequate disclosure means that the financial statements should contain all material information necessary to make them useful to users.

In the Malaysian context, the Islamic financial institutions and business entities should at least disclose the following information in the annual reports:

i) the amount of *zakah* due or paid:
ii) the method of *zakah* measurement used;
iii) the ruling of *Shari[ah* supervisory board (in the case of Islamic banks) on matters pertaining to *zakah*; and,
iv) the obligation on *zakah* due from the subsidiaries; the equity investment account; and other investment account (in the case of Islamic banks).

A cursory examination of the current practices shows the lack of information provided to the users of the annual reports. Most business entities in Malaysia including Islamic banks only disclosed the amount of *zakah* paid for the accounting year. The users of *zakah* information have been denied of the right to know the information pertaining to the method of *zakah* measurement adopted, where the *zakah* money has been distributed etc. This departs from the concept of Islamic accountability where Muslims public has the right to know the financial information related to *zakah*.

It is about time regulatory agencies such as Bank Negara Malaysia, Suruhanjaya Syarikat Malaysia, Malaysia Accounting Standards Board (MASB) and other related regulatory agencies to realize the importance of developing an accounting standard on *zakah*. Recently, the MASB has attempted to develop such a standard but until now nothing material is coming out from them.

DEVELOPING PROPER PERFORMANCE MEASUREMENT SYSTEM

The task of measuring performance in the public sector is problematic. Many authors in the field of performance measurement suggest that performance in the public sector should be measured based on the '3 Es', i.e. economy, efficiency, and effectiveness. Economy represents the relationship between resources expended or budgeted for an activity and what is received for them. In this context, economy concerns only input, where it is the minimization of input for a given level of output. Thus, economy measures are usually expressed in the form of cost, budget and number of staff in an organization, e.g. cost per service type, number and categories of staff involved.

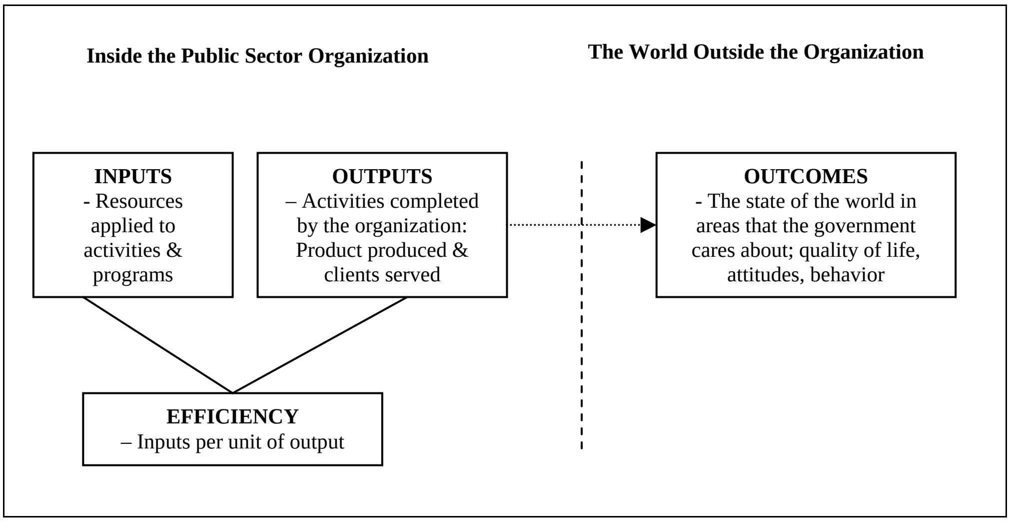
In contrast, effectiveness focuses mainly on the outputs. Here outputs refer to goods and services produced as a direct result of management activities. Hence, effectiveness measures usually consider the success with which planned outputs are achieved. In simple terms, effectiveness measures the extent to which an organization's objective has been achieved.

Meanwhile, efficiency deals with both input and output. It measures how productive inputs are turned into outputs. Efficiency measures involve the ratio between input and output. Thus, efficiency measures are viewed as a two-sided coin where a maximum output is obtained for a given input or the minimum input is set to generate a certain output. The '3 Es' that have been widely used in the public sector, however, put too much emphasis on internal measurement such as cutting costs and reducing the workforce. They fail to measure the output quality and the external users of services given. Additional factors such as the quality of services, consumer satisfaction and productivity need to be considered in measuring the public sector performance.

The additional measures of performance which is known as outcomes refer to the consequences of the output produced. Outcome measure considers not only the achievement of organizational objectives but also look at the impact of that output on the world outside of the organization (Schacter, 1999). In other words, this measure considers the results of an organization's activities in society. Schacter

(1999) then combines these four dimensions of performance measurement systematically into a diagram shown in Figure 1.

Figure 1: Four Dimensions of Performance Measurement (Schacter, 1999)



In the West, public service organizations have been subjected to intense public scrutiny due to their importance in fulfilling accountability to the public. SIRCs in Malaysia are of no exception. They should be even more accountable, as *zakah* collection and distribution involves accountability not only for their actions to the stakeholders in this world but also transcendentally to Allah SWT. SIRCs are expected to develop performance measures which will enable the organizations to assess their performance within (or inside) the organization as well as evaluating its performance to the world outside of the organization.

Jamaliah and Abdul Rahim (2005) have examined the performance measurement practices of the SIRCs in Malaysia by exploring the perceptions of senior managers who are involved directly in the collection and distribution of *zakah* funds. It is believed that based on their experiences and involvement in the management of *zakah*, these senior managers may be able to provide an overall picture of the performance measurement being used in the SIRCs.

The research used primary data i.e. postal questionnaire as a method of collecting data since a large geographical area can be covered quickly and cheaply. Four groups of respondents were identified. The first group is senior managers who are responsible for the collection of *zakah*. The second group is senior managers who are responsible for the distribution of *zakah* while the third group is the Chief Executive Officers (CEOs) of SIRCs as their views are considered necessary since they are responsible for evaluating the overall performance of the organizations and the performance of senior managers who are responsible for the collection and distribution of *zakah*. The fourth group is the Finance Directors and this is due to the fact that the Finance Directors or the Chief Financial Officers (CFOs) play an important role in the reporting of performance measurement to the external users.

The Use and Usefulness of Performance Measures by Malaysian State Islamic Religious Councils (SIRCs)

Table 1 presents a list of performance measures based on percentage of use and non-use as well as the level of usefulness.

Table 1: Performance Measures of *Zakāh* Collection Being 'Used' and their 'Usefulness'

Performance Measures	Use (%)		Level of Usefulness		Dimension
	Yes	No	Mean	Rank	
Category 1: Used in all *Zakāh* Institutions (100%)					
Amount of *zakah* collected (Actual vs. Budget)	100	0	4.43	3	Output
Amount of *zakah* collected (Current year vs. Previous years)	100	0	4.40	4	Output
Category 2: Widely Used (70% to 99%)					
Operational cost in collecting *zakah* (Current year vs. Previous years)	95	5	4.29	5	Input
Operational cost in collecting *zakah* (Actual vs. Target)	93	7	4.43	2	Input
Number of *zakah* payers (excluding Zakat al fitr) (Current year vs. Previous years)	90	10	4.59	1	Output
Number of complaints made by *zakah* payers per annum	88	12	4.17	9	Output
Number of promotional campaigns undertaken each year (Actual vs. Target)	88	12	4.24	7	Output
Number of *zakah* payers (excluding *zakah* al fitr) (Actual vs. Target p.a.)	81	19	4.26	6	Output
Category 3: Not Widely Used (69% and less)					
Average length of time to settle complaints made by *zakah* payers	67	33	3.90	11	Output
Proportion of *zakah* collected to the no. of individual *zakah* payers	67	33	3.86	13	Efficiency
Proportion of the number of *zakah* payers to the total number of Muslims in a state	64	36	4.02	10	Efficiency
Average waiting time for an individual to be entertained by staff	62	38	4.19	8	Output
Proportion of *zakah* collected to the operational cost in collecting *zakah*	57	43	3.88	12	Efficiency
Proportion of operational cost in collecting *zakah* per individual *zakah* payer	52	48	3.69	14	Efficiency
Average	**79**	**21**	**4.17**		

This study shows that the performance measures that are being used in the SIRCs could be categorized into three groups, i.e. (i) used in all, (ii) widely used (80 to 99%), and (iii) not widely used (79% and less). It is found that performance measures that have been grouped in the first category, are those basic performance measures, and the data are relatively easy to obtain or readily available, especially when preparing the budget. It is expected that every institution dealing with the collection of *zakah*, to monitor the actual amount of *zakah* collected and make a comparison with the amount collected previously or the budgeted figure.

Meanwhile, performance measures which have been categorized in the second group are also relatively easy to obtain or readily available. However, the data for performance measures in this category appears to be more complex than the first category since it involves estimation and the management has to set the target. Most of the performance measures in the second category comprise of measures that describe the process and procedures undertaken in collecting *zakah*, for example, the ‘operational costs incurred in collecting *zakah*; the `number of promotional campaigns undertaken each year’.

Performance measures that are considered in the third category are mostly involved the ratio of input to output and deal with complex computation. For this kind of measure, the organization must have proper record-keeping of the complaints as well as the time involved in settling the complaints. The level of usefulness seems to be associated with the percentage of use. The greater the percentages of use of such performance measures, the higher the level of usefulness perceived by the senior managers in the SIRCs.

However, there are two performance measures, which are found to be always useful (level of usefulness above 4) but fall into the `not widely used’ category. These are the ‘proportion of the number of *zakah* payers to the total number of Muslims in a state’ and the ‘average waiting time for an individual to be entertained by staff’. These two measures `not being used widely’ though they are perceived to be `always useful’ may be due to the difficulties to gather data on the `total number of Muslims in a state’ or the `waiting times borne by each individual *zakah* payer’.

Table 2 presents the results of performance measures of *zakah* distribution being used and their level of usefulness in Malaysian *Zakah* institutions.

Table 2: Performance Measures of *Zakāh* Distribution Being 'Used' and their 'Usefulness'

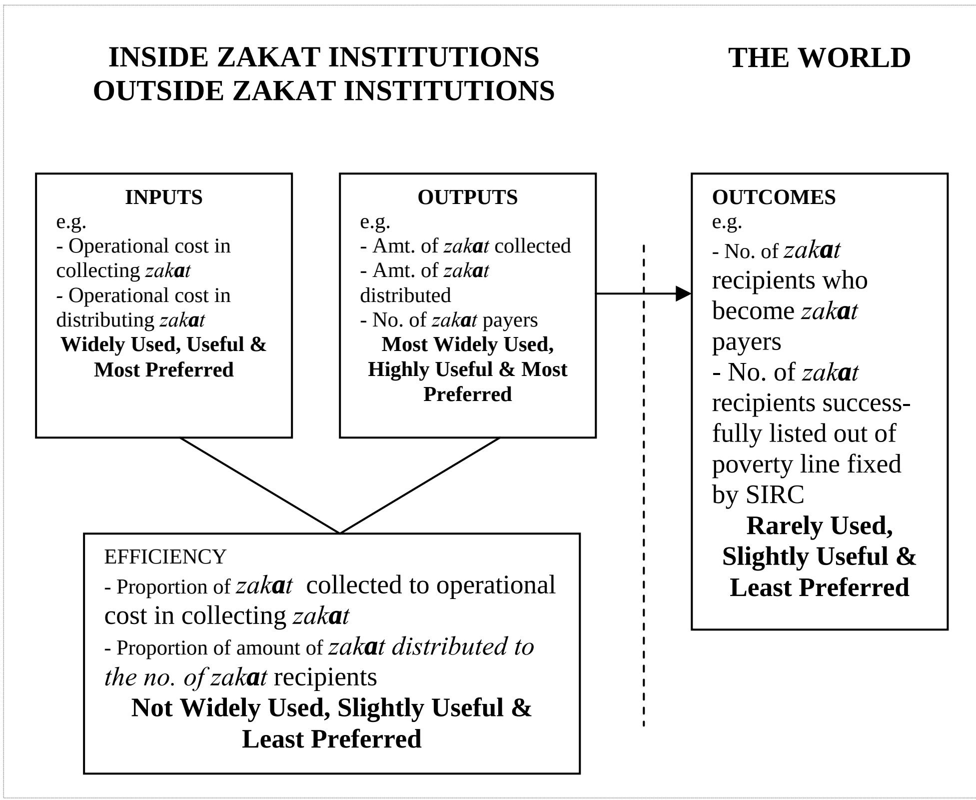
Performance Measures	Use (%)		Level of Usefulness		Dimension
	Yes	No	Mean	Rank	
Category 1: Widely Used (70% to 99%)					
Amount of *zakah* distributed to each of 8 Asnaf (Current year vs. Previous years)	88	12	4.429	1	Output
Amount of *zakah* distributed to each of the 8 Asnaf (Actual vs. Budget)	86	14	4.429	2	Output
Number of *zakah* recipients (Current year vs. Previous years)	83	17	4.357	3	Output
Number of *zakah* recipients for each scheme (Current year vs. Previous years)	83	17	4.071	11	Output
Number of *zakah* recipients (Actual vs. Target)	81	19	4.262	6	Output
Average Number of days taken from approval to *zakah* fund received by beneficiaries	81	19	4.119	8	Output
Number of complaints received from *zakah* recipients	81	19	4.048	12	Output
Number of *zakah* recipients for each scheme provided using *zakah* funds (Current year vs. Target)	79	21	4.167	7	Output
Average Number of days taken from processing application form to approval of *zakah* funds for distribution process	79	21	4.071	10	Output
Operational cost in distributing *zakah* (Actual amount vs. Target)	76	24	4.333	4	Input
Operational cost in distributing *zakah* (Current year vs. Previous years)	74	26	4.286	5	Input
Proportion of total *zakah* distributed to the total amount of *zakah* collected	74	26	4.119	9	Efficiency
Proportion of amount distributed to the poor and needy as to the total amount distributed p.a.	71	29	3.976	13	Efficiency
Category 2: Not Widely Used (69% and less)					
Proportion of amount of *zakah* distributed to the Number of *zakah* recipients	67	33	3.833	17	Efficiency
Number of complaint letters received	64	36	3.714	22	Output
Proportion of operational cost in distributing Zakat to the total amount of *zakah* distributed	62	38	3.857	15	Efficiency
Proportion of amount of *zakah* distributed to the Asnaf – poor to the Number of Asnaf – poor registered with *zakah* institution.	62	38	3.857	16	Efficiency
Average length of time taken to settle complaints made by *zakah* recipients	60	40	3.810	18	Output
Proportion of amount of *zakah* distributed to the Asnaf – needy to the Number of Asnaf – needy registered with *zakah* inst.	60	40	3.810	19	Efficiency
Proportion of operational cost in distributing *zakah* to the Number of *zakah* recipients	55	45	3.762	20	Efficiency
Average waiting times taken for an individual to be entertained by staff	52	48	3.643	23	Output
Number of *zakah* recipients successfully listed out of poverty line fixed by SIRC (Current year vs. Target)	49	51	3.905	14	Outcome
Number of complaints reported via appointed *'Amil* (Current year vs. Previous years)	46	54	3.643	24	Output
Proportion of *zakah* recipients registered with *Bayt al mal* to the total of poor and needy in Muslim Society	43	57	3.738	21	Outcome
Number of *zakah* recipients become *zakah* payers	43	57	3.286	25	Outcome
Average	**68**	**32**	**3.981**		

Performance measures of *zakah* distribution could also be classified into two categories. These are, (i) widely used and (ii) not widely used. None of the performance measures being used in all SIRCs. Performance measures that are classified in the first category, i.e. `widely used' are performance measures are basic performance measures which deal with fundamental information that are expected to be available in the SIRCs and relatively easy to compute such as the `number of *zakah* recipients for each scheme' or the `operational costs incurred'. It is noted that the lower the percentage of use, the greater the level of complexity demanded to compute such measures.

The second category involves performance measures 'not widely used'. These performance measures (except the `number of complaint letters received') are fairly difficult to compute and involved comparative figures and ratios. Most of the performance measures in this category deal with efficiency measures and the information needed to generate these measures is quite difficult to obtain. For example, the 'number of *zakah* recipients who become *zakah* payers' or the `number of *zakah* recipients successfully listed out of poverty line (*had al-kifayah*)'. These measures require the SIRCs to monitor closely each *zakah* recipient and investigate whether these recipients have moved beyond the poverty. For this reason, the senior managers may be unwilling to apply these complex measures. Overall, the results suggest that the most useful performance measures are input and output measures, while the less useful are efficiency and outcome measures.

The following diagram summarizes the performance measures that are being used and their level of usefulness in the SIRCs.

Figure 2: Summary of Performance Measurement Practices in the SIRCs



The above study indicates that the performance measurement practices SIRCs in Malaysia is merely focusing on simple input and output measures rather than more useful impact indicators such as efficiency and outcome. It is highly commendable if more attention is geared towards developing proper performance measurement system. More studies are required to fully develop such a system to ensure more managerial, public and Islamic accountabilities can be effectively achieved. However, the most important initiative in reforming the present system is to press for awareness and education. It is suggested that more workshops should be organized to further discuss and brainstorm ideas towards achieving a more effective, proper and transparent performance measurement system in SIRCs.

CONCLUSION

In summary, the article has broadly discussed three pre-requisites before *zakah* can be effectively integrated into the mainstream Islamic financial system in Malaysia. All three pre-requisites are issues that need to be focused on and resolved by the relevant authorities in Malaysia in order to make *zakah* a prominent component in the Islamic financial system. These pre-requisites identified are based on the author's own personal observations and past research experiences. The pre-requisites identified are just indicative and definitely far from being conclusive. Finally, it is expected that, first, more research are needed to address all the above pre-requisites. Secondly, the federal government, state governments and other related agencies and authorities need to come together to seriously discuss the above issues despite the existing differences and historical backgrounds. Thirdly, there is a need for a political will by the government to push the initiative to reform the institution of *zak**a**h* in Malaysia.

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