



## Zakat Surplus Funds Management

Ram Al Jaffri Saad<sup>1\*</sup>, Norfaiezah Sawandi<sup>2</sup>, Rahayu Mohammad<sup>3</sup>

<sup>1</sup>Tunku Intan Syafinaz School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia, <sup>2</sup>Tunku Intan Syafinaz School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia, <sup>3</sup>Islamic School of Business, Universiti Utara Malaysia, Sintok 06010, Kedah, Malaysia. \*Email: [ram@uum.edu.my](mailto:ram@uum.edu.my)

### ABSTRACT

The success of zakat institutions in managing the affairs of the zakat fund cannot be denied. Zakat collection has been increased substantially every year. However, one issue that is still being debated is the issue of zakat fund surplus. The purpose of this paper is to discuss two key points. First, to identify whether zakat fund surplus exists or not at the time of Prophet Muhammad (PBUH) and the caliphs after PBUH. Second, to discuss the developments in the management of zakat fund surplus. The content analysis method was employed to achieve the objectives. Results show that there is a surplus of zakat funds reported during the reign of Caliph Umar Abdul Aziz. The study also found that surplus of zakat funds can be managed by investing the zakat fund surplus for the benefit of the zakat recipients (asnaf).

**Keywords:** Zakat Collection, Zakat Distribution, Fund Surplus, Management

**JEL Classification:** M40

### 1. INTRODUCTION

Zakat institutions and management in Malaysia have grown rapidly. A lot of success has been achieved, particularly in increasing the amount of the zakat collection throughout the country. A report on zakat collection for every state in Malaysia issued by Federal Territory Islamic Religious Council/Majlis Agama Islam Wilayah Persekutuan (2012) shows a significant increase in the amount of zakat collection. For example, the collection of zakat at national level for the year 2007 stood at RM805.6 million. This figure had increased to RM1037.6 million in 2008 and increased again in 2009 to RM1196.2 million. In 2012, the amount of zakat collection was RM1922.8 million.

Despite the success in increasing the collection of zakat from year to year, zakat institutions, as a nonprofit organization that manages public funds, are closely monitored by the general public, particularly the Muslim community. Therefore, there are various issues that have been raised by the general public regarding the distribution of zakat fund that is claimed as not effective and efficient. This claim, to a great extent, is justified by reports that reveal how much of the zakat fund collected that was not

distributed to the eligible recipients (Asnaf) every year. This has caused the current year and the accumulated zakat fund surplus is increasing from year to year.

For example, out of RM805.6 million of the zakat fund collected in 2007, only RM640.6 million was distributed. Hence, leaving RM165 million as zakat surplus in 2007. The amount of undistributed zakat fund in year 2008 rose to RM288.7 million. Although the amount of the undistributed zakat fund was reduced to RM176.1 million in 2009, the figure increased to RM183.6 million in 2010. For 2011 and 2012, the amount of zakat fund surplus increased to RM261.9 million and RM345.8 million respectively.

There are several questions emerge regarding the zakat fund surplus. Is there zakat fund that do not distribute in the days of Prophet Muhammad (PBUH) and the caliphs after the time of PBUH? If there is zakat fund surplus in those eras, how that surplus are managed? If the zakat fund surplus do not exist in those days, could undistributed zakat fund that we currently have being regarded as surplus? How should it be managed?

To answer these questions, two main objectives have been developed in this paper. First, to identify whether or not there is an undistributed zakat fund at the time of the PBUH and his companions; and second, to analyze the development of the management of zakat fund surplus by zakat institutions in Malaysia.

Qualitative method was used in this study. This method involves collecting data from secondary data. The secondary data was obtained through library research. The data was analysed using content analysis method.

## 2. THE HISTORY OF ZAKAT FUND MANAGEMENT

### 2.1. Zakat Management in PBUH Era

Zakat management at the time of the PBUH can be divided into two areas, in Mecca and Medina (Musa et al., 2007; Hamizul, 2012). In Mecca, zakat management approach was focused on the collection of zakat amongst the rich and all the Prophet's companions. At that time, donations and assistance were received from the companions, who expecting nothing in returns, and be distributed to the poor who live locally (Hasnan et al., 2014). The main purpose of zakat management at that time was to strengthen brotherhood amongst individuals who are just newly convert to Islam. In this era also, terms on haul, nisab, and the rate and types of property that subject to zakat are not determine yet (Wahairi, 1991).

Meanwhile, in Medina, a more comprehensive and detail zakat law was established. The zakat system in Medina was more efficient and systematic. Among other things the zakat law specified individuals who are required to pay zakat, individuals who are entitled to receive zakat, the types of property that are subjected to zakat and the zakat payment procedures (Wahairi, 1991). PBUH managed to establish the Islamic state based on faith and belief to Allah. After that success, PBUH had been trying to manage the society life through zakat in order to achieve prosperity and brotherhood. This is because the zakat is able to help to form a financial bond between the community at large (Wahairi, 1991).

To achieve that goal, PBUH had been shaping the management of zakat by refining the zakat institutions. Among the steps taken by the PBUH was to appoint zakat managers or known as *amil*. *Amil* were elected to collect zakat thorough out the land of Arab. They were assigned to collect zakat, at a certain rate, from the rich people. Later, the zakat funds were distributed to the recipients (asnaf) who are eligible. At that time, the poor are the ones who were given priority in receiving the zakat (Wahairi, 1991). This was reflected in PBUH command to Muadh ibn Jabal, who was chosen to go to Yemen, which is as follows:

*“Tell them how Allah has made it compulsory for them Sadaqah (zakat) from their wealth taken from the rich and given to their poor people.”*

(al-Bukhari, Sahih, Bukhari, no. 1308)

PBUH also appointed zakat officers to ensure zakat management activities run smoothly. The appointed zakat officers were Bilal

bin Abi Rabah, Zubayr ibn al-Awam and Jahmu bin al-Suht. Bilal bin Abi Rabah was assigned to look after the zakat property and to distribute zakat. Meanwhile, Zubayr ibn al-Awam and Jahmu bin al-Suht were assigned a registrar and auditor of the zakat funds collected (Wahairi, 1991). It can be seen here that PBUH had laid a solid foundation in his leadership, particularly in the context of the zakat administration. PBUH had introduced the principle of power division, distribution of tasks, recording and element of enforcement of zakat managing.

As the zakat administrative activities run smoothly, distribution of zakat funds that had been collected were carried out immediately. This is because, at that time the majority of Muslims was still living in deprivation (Wahairi, 1991). The concept of al-Fauran (prompt) was practiced by the PBUH whereby zakat funds collected was distributed promptly (Hamizul, 2012). This means that zakat funds collected was distributed as soon as possible in the interests of Muslims who were in need at that moment. A prompt zakat distribution is important at that time to enable those live in deprivation to improve their living. In addition, PBUH had developed standards or guidelines on the distribution of zakat. The purpose of the guidelines is to determine and differentiate between individuals who are eligible to receive zakat from individuals who are not entitled to receive a zakat.

During the time of PBUH, zakat fund was distributed in the same area in which it had been collected (Hairunnizam et al., 2012b). PBUH had appointed *amil* to manage the affairs of zakat collection. Amongst those appointed as *amil* were Malik bin Nuwairah, Abu Musa al-Ashari, Muaz bin Jabbal, Umar Ibn al-Lutaybah, and many others (Abdul, 2013). *Amil*, that were appointed, had distributed immediately all the zakat funds after being collected leaving no surplus or balance (Kahf, 1999; Hairunnizam et al., 2012b). It seems that at that time zakat funds collected were distributed quickly and efficiently to the recipients.

In the era of PBUH also witness many parties who willing to be a zakat volunteer. They consist of local people who voluntarily commit themselves to serve and contribute financially to the recipients. PBUH had successfully implemented an effective zakat management system and as a result the distribution of zakat funds has alleviate Muslims' standard of living and passion to uphold Islam.

### 2.2. Zakat Management in the Era of Caliphs of Ar-Rasyidin

After the PBUH passed away, the leadership of the Muslims was resumed by PBUH companions. This period of time is known as caliphs of Ar-Rasyidin leadership era. Successors are comprised of Sayidina Abu Bakr, 'Umar al-Khattab, Uthman Affan and Ali Abi Talib. At that time, the management of zakat was in accordance with the procedures and methods that had been employed during the reign of the PBUH. However, there were developments in various aspects, particularly the management of zakat and types of zakat properties.

#### 2.2.1. Sayidina Abu Bakr

The first caliph was Sayidina Abu Bakr as-Siddiq. He had made his house as a place to collect and keep the government property.

Distribution of zakat to the poor was according to the approaches used by PBUH. However, the management of zakat at this time experienced some challenges as there were those who refused to make payment of zakat. For example, Arab Badawi tribe assumed that, after the PBUH had passed away, zakat was no longer compulsory as they considered the payment of zakat is a burden (Faisal, 2011).

Saiyidina Abu Bakr had made some reforms in the management of zakat. One of reforms was to fight against those who did not want to pay zakat to the government. At this time, Saiyidina Abu Bakr struggled to maintain the harmony in Medina. This is because after the death of the PBUH, Medina was in an unstable state. The unstable condition, if not being improved, would have a negative impact on Medina (Hamizul, 2012). Step taken by Saiyidina Abu Bakr shows that the obligation to pay zakat is important because the zakat fund collected could be distributed to people in need and to enable them to be out of poverty.

Saiyidina Abu Bakr's effort to fight against those who refused to pay zakat indicates that the law on zakat must be enforced. A strong commitment in Islamic leadership could empower zakat institutions. Should the reins of Islam is weak, then the zakat institutions will also be weak. The government has the right to order the zakat payment to be handed over to the government. As zakat is a mandatory duty, those who refuse to pay zakat is considered as had committed an offence from Islam perspective.

However, there are few developments relating to the affairs of zakat during this period of time. This is because the atmosphere in the city of Medina was still not stable from the rebellious groups that trying to free themselves from Islam. However, Saiyidina Abu Bakr, executed the Prophet's will by collecting zakat on honey. He had also provided one separate room to keep the state property before he passed away (Hamizul, 2012).

### 2.2.2. Saiyidina Umar al-Khattab

Saiyidina Umar al-Khattab was a leader who set up laws based on social reality (Faisal, 2011). He is also well-known as a leader who is highly innovative. During his reign, zakat institutions were established systematically. He also implemented the department structure to administer the financial affairs of the country at the state level, province and *kariah*.

According to Hamizul (2012), Saiyidina Umar al-Khattab had introduced some innovations in managing zakat. This is to prevent the occurrence of errors and leaks of zakat funds. Among the innovations he had implemented was the establishment of baitul mal. Baitul mal was established as a place to store the state's treasury and properties. These properties include zakat, *kharaj*, *jizya*, *usyr*, *booty*, *fay*' and many others.

The establishment of the baitul mal was a crucial effort in zakat management after the reign of Saiyidina Abu Bakr. During the time of Saiyidina Abu Bakr, he only provided one room as a place to store state's properties. Following the recommendation from Khalid al-Walid, Saiyidina Umar al-Khattab set up ad-Diwan, a special department to manage state property. With

the establishment of ad-Diwan, baitul mal had become the state's property store centre particularly the zakat fund.

In addition, Saiyidina Umar al-Khattab had implemented the distribution of power and responsibilities in matters relating to the management of zakat. The concept of headquarters and branch management system were also established whereby Medina had become the center of administrative.

At the same time, Saiyidina Umar al-Khattab appointed managers (*amil*) of zakat and other staff as permanent government staff. The appointment was to ensure they receive permanent wages and to motivate them to be committed in performing the assigned responsibilities. Saiyidina Umar al-Khattab also developed an effective method in monitoring the management activities of zakat by appointing officers to oversee tasks relating to the property.

Saiyidina Umar al-Khattab had also introduced the concept of zakat distribution to the recipients until the recipients become rich. The objective of this concept was to transform the lives of the poor who had been the recipients of zakat to someone who can pay zakat (Qaradawi, 2010). To avoid exploitation activities and embezzlement of zakat funds, Saiyidina Umar al-Khattab spent all the money in baitul mal at the end of the year.

Under the administration of Saiyidina Umar, the problem of poverty was well addressed to the extent it was difficult to find eligible zakat recipients (Farooq, 2008; Atai and Ahmad, 2010). This indicates that Saiyidina Umar al-Khattab was transparent in managing the zakat fund. The zakat distribution policy adopted was to distribute zakat to the recipients so that recipients are become rich. Thus, there is no surplus of zakat fund under the administration of Saiyidina Umar. In addition, exploitation activities and embezzlement of zakat funds can be entirely avoided.

Based on records by Ibn Saad, Saiyidina Umar al-Khattab had set up a foundation, the Dar al-Daiq. For the interest of the public, the foundation was established in stopover locations between Mecca and Medina. Saiyidina Umar al-Khattab had also imposed zakat on horses that are traded, even though zakat on horses does not apply in the days of PBUH (Musa et al., 2007; Faisal, 2011). This zakat was imposed when Abu Ubaydah al-Jarrah informed Saiyidina Umar twice about requests from people who asking Abu Ubaidah to impose zakat on their horses. Horses at the time of the PBUH was only intended for agriculture and transport, while horses at the time of Saiyidina Umar had been commercialized. In addition, Saiyidina Umar had also expanded the interpretation on zakat agricultural (Musa et al., 2007).

### 2.2.3. Saiyidina Uthman Ibn Affan

The management of Baitul mal at the time of Saiyidina Uthman Ibn Affan was regarded as similar to the previous years with only few changes took place. During the reign of Saiyidina Uthman Ibn Affan, he used the same approach of governance as employed by Saiyidina Umar. The change that he made was by raising the rate of assistance up to 100% to ensure the assistance provided to the target recipients is sufficient. This is important to improve the living conditions of Muslims.



Saiyidina Uthman Ibn Affan also distributed the zakat fund based on priority. Zakat was distributed merely to individuals who are entitled to receive the zakat. At this time, zakat was categorised into two types, tangible and intangible zakat. During this period, zakat payers were allowed to distribute intangible zakat funds directly to recipients whilst tangible zakat need to be paid to *amil* who was appointed by the government (Wahairi, 1991; Siti, 2009; Jasni and Anwar, 2012). However, the government had the power to formulate legislation to ensure that zakat is paid to *amil* zakat, who was appointed by the government under the concept *siyasah syar'iyah*.

#### 2.2.4. Saiyidina Ali Bin Abi Talib

During Saiyidina Ali Bin Abi Talib leadership, his focus was to monitor the behavior of the *amil* who had been given the responsibility to collect zakat. This was to ensure that there is no coercion to the property owners and to guarantee their welfare (Wahairi, 1991).

### 2.3. Zakat Management in the Reign of the Umayyah

Caliph Umar Abdul Aziz was a caliph who is famous for its governance, especially in matters relating to the management of zakat. Zakat management went through a very impressive reforms during his time. Zakat management and system was managed by professionals. At this time, there are various types of property and wealth that subject to zakat (Faisal, 2011).

Caliph Umar Abdul Aziz also someone who carefully managed the properties of the state. During his leadership, there was lot of zakat funds being kept in baitul mal. In fact, at that time *amil* had difficulty in finding zakat recipients who in need of zakat (Faisal, 2011).

Caliph Umar Abdul Aziz was also known for his wisdom. He had broaden the distribution of zakat funds through his own *ijtihad*. For example, he directed Yahya bin Said to go to Africa to distribute zakat to the needy. However, Yahya could not find those who need zakat there. Then, Yahya used the zakat funds to freeing slaves (Hamizul, 2012).

Moreover, when informed by those who managed the zakat fund that there is no one who is eligible to receive zakat, Caliph Umar Abdul Aziz had used the zakat funds to build houses. These houses were given for free to people who still do not have a house.

Caliph Umar Abdul Aziz also bought horses and animals that are suitable to transport people who did not have a vehicle at the time. He also used the zakat fund to funding young people who want to get married (Hamizul, 2012). These channels of distribution are seen as approach employed by Caliph Umar Abdul Aziz to diversify the zakat distribution channels in order to avoid the accumulation of (undistributed) zakat funds. The diversity in means to distribute zakat funds had benefit the Muslim community at that time.

## 3. ZAKAT SURPLUS AND INVESTMENT

In the early days of Islam, zakat fund was distributed immediately. At that time there was no surplus of zakat funds. This is because

the eligible zakat recipients were easy to be identified for the purpose of distribution of zakat funds (Shofian and Luqman, 2013). At that time there was no zakat fund invested because there is no surplus of zakat funds.

However, at the time of caliph Umar Abdul Aziz, as discussed in the previous section, there was surplus of zakat funds as no one is eligible to receive the zakat distribution. It can be observed that during that time several reforms had been introduced on the management of zakat funds. The excess of zakat funds were used to benefit of the zakat recipients in variety of ways such as to build houses and so on. This approach of managing zakat fund surplus can also be observed in the context of the zakat fund investments.

Generally, there are different opinions or views about investing the surplus of zakat funds. The first view does not encourage the investment of zakat fund surplus. This is because it may take time to generate income/return (from invested zakat funds) that could be distributed to the recipients as zakat funds should be distributed to the eligible recipients as quick as possible. In addition, there is risks that the investments may incur possible losses. Zakat fund surplus investment is also being seen as denying the rights of the recipients to receive the zakat funds.

Secondly, there is an opinion that allows the surplus of zakat fund to be invested. This view is based on the argument that there is difference in terms of context and time. Those who agreed with this view argued that the current situation is different from the past. As Muslim community is increasing the collection of zakat is also increasing every year, which may be one of the factors that cause the surplus (undistributed) of zakat fund. Therefore, there are zakat institutions that had invested the surplus undistributed zakat fund in the interests of zakat recipients. Investment of surplus of zakat fund has been made to generate return or benefits to zakat recipients in the future.

View that allows the investment of surplus of zakat fund is based on the history of the Caliphs of Ar-Rasyidin. During the reign of caliphs of Ar-Rasyidin investment activities were undertaken to increase zakat wealth such as cattle, camels and goats. This is because livestock has a high potential in the process of reproduction.

Although investment of the surplus of zakat fund is allowed, there are several requirements that must be met in carrying out investment activities so the activities are in accordance with the Islamic law. In Malaysia, the requirements and guidance on zakat funds investment are specified by the National Fatwa Committee ("Rules of Investment in using Zakat Fund," 2009).

Among the conditions is zakat fund investments made should be in accordance with Islamic law. In addition, there is a guarantee that the zakat funds invested are the zakat property. Therefore, the (net) profits should be returned to the zakat account to be distributed to the eligible recipients, which is after deducting management costs.

Another requirement is there is a guarantee that the Islamic Religious Council will repay all amounts of zakat that had been invested in the event of loss. Zakat invested must also be withdrawn at any time if there is an urgent need to distribute the zakat fund. The investment manager of the zakat fund should also carry out a detail research on the investment project or activity that is going to be made to ensure that the project or activity is guaranteed and safe (Mujaini, 2006). This is to ensure that investment is made in accordance with Islamic law and to avoid loss due to poor planning.

Investment may also be made if there no urgency to distribute the zakat fund. In addition, the investments should be managed by a specific body or special committee consist of experienced and capable experts. The investee must also be an honest and trustworthy institution or person. This is to avoid the zakat fund from being misappropriated. If the zakat institutions do not have sufficient expertise to manage the investment, a professional committee, comprise of those who have expertise, can be appointed. At the same time, the zakat institutions should monitor the zakat fund investments (Mujaini, 2006).

According to Qaradawi (2010), if there is zakat fund surplus and it is certain that no one is eligible to receive the zakat distribution in that region/state, the surplus should be distributed to another regions/states that have lesser amount of zakat collected compared to zakat that need to be distributed. However, this should depend on the consent of the majority of scholars. The transfer of zakat fund surplus to regions that experience zakat deficit may be able to reduce social and economic inequalities between regions and states.

According to the e-fatwa website, the resolution of meeting over the usage of surplus of zakat fund that is not distributed to the zakat recipients is that the money collected should remain as zakat fund. If the total amount of accumulated zakat collection is too much, then it can be used for development purposes, but the income earned must be returned to the recipients (The Rules of Investment in Using Zakat Fund, 2009).

#### 4. CONCLUSION

The issue of surplus of zakat funds often being debated by the society. There are those who blamed the zakat institutions as not effective and efficient in managing its zakat distribution system. The zakat institutions have responded by claiming that it is not fair to blame them because they argued that they have carried out their responsibilities as best as they could.

The question is whether there is a surplus of zakat fund during the reign of the PBUH and the caliphs after the time of PBUH? From the evident presented and explained in this paper, it can be concluded that in the early days where zakat is made compulsory, there is no surplus of zakat fund situation occur. All zakat collected was distributed to the recipients. However, evident shows that there is a surplus of zakat fund during the reign of caliph Umar Abdul Aziz but this is due to the fact that no one is eligible to receive the zakat fund.

The second question that this paper attempts to address is how the management of surplus of zakat funds evolved? Analysis carried out based on the previous studies shows that the surplus of zakat funds was used in various ways. However, the principal objective of zakat to help the recipients was still preserved. For example, if the zakat funds were used to build houses, the houses will be handed over to the recipients of zakat.

In conclusion, the management of zakat fund surplus is still evolving and need new *ijtihad*. More efficient and long-term management methods or approaches are needed to be developed either by the religious authorities or Islamic scholars. With a proper and systematic plan the impacts of zakat fund surplus management can be optimized for the zakat recipients.

#### REFERENCES

- Abdul, R.T. (2013), The concept of zakat distribution to asnaf according to Islamic perspective. *Jurnal Pengurusan JAWHAR*, 7(2), 5-16.
- Atai, H., Ahmad, T. (2010), Management of Zakah: Centralised versus Decentralised Approach. In 7<sup>th</sup> International Conference-the Tawhidi Epistemology: Zakat and Waqf Economy. Bangi, Selangor. p351-374.
- Faisal, F. (2011), The history of zakat management in the Muslim world and in Indonesia (investigation theory approach-the history of Charles Peirce and Lieven Boeve's deficit truth). *Journal of Analysis*, XI(2), 241-272.
- Farooq, M.O. (2008), The challenge of poverty and the poverty of Islamic economics. *Journal of Islamic Economics, Banking and Finance*, 4(2), 35-58.
- Hairunnizam, W., Radiah, A.K., Sanep, A. (2012b), *Amil* and asnaf perception towards zakat localization: Studies in the federal territory of Kuala Lumpur. *Jurnal Pengurusan JAWHAR*, 6 (1), 79-106.
- Hamizul, A.H. (2012), *Zakat Exclusif*. Petaling Jaya, Selangor: Science Gallery Sdn. Bhd.
- Hasnan, K., Aisha, J.M., Umar, F. (2014), The administration of Nafkah (maintenance) of the Poor in Negeri Sembilan: A study on the Social Impact amongst recipients in Seremban District. In Proceedings of the National Conference of Malaysia, 9, 535-542.
- The Rules of Investment in Using Zakat Fund. (2009). Available from: <http://www.e-fatwa.gov.my/fatwa-negeri/hukum-pelaburan-menggunakan-wang-zakat>. [Last retrieved on 2014 Jun 04].
- Jasni, S., Anwar, M.A. (2012), Comparative study of zakat collection legal administrative in Aceh provinces and Kedah. *Malaysia Study*, 30 (1), 107-138.
- Kahf, M. (1999), The Performance of the Institution of Zakah in Theory and Practice. In International Conference on Islamic Economics Towards the 21<sup>st</sup> Century.
- Mujaini, T. (2006), *Zakat Towards Professional Management*. Kuala Lumpur: Utusan Publications & Distributors Sdn Bhd.
- Musa, A., Arifin, M.S., Abdullah, S. (2007), Exploration of New Sources of Zakat in Malaysia. In National Zakat And Tax Conference. p73-82.
- Qaradawi, Y. (2010), *Zakat Laws*. 11<sup>th</sup> ed. Singapore: Pustaka Nasional Pte Ltd.
- Shofian, A., Luqman, M. (2013), Zakat investment by zakat institution in from Islamic perspective. *Journal Undang-undang Malaysia (CODE)*, 25(1), 122-135.
- Siti, M.M. (2009), Zakat Legal System in Malaysia: Between realities and Expectations. In: Noor, A.H.D., Salleh, M.A., Nordin, R., Said, M.M., Taib, S.N.H., editors. *Integrating Zakat & Tax In Malaysia Towards*

Zakat Excellence. Shah Alam, Selangor: Pusat Penerbitan Universiti  
Teknologi MARA. p141-176.  
Wahairi, M. (1991), Zakat: Its Role in Wealth Enrichment. Kuala Lumpur:

Pustaka al-Mizan.  
Zakat Report. (2012), Federal Territory Islamic Religious Council.  
Available from: <http://www.zakat.com.my>