

Maximizing Zakat Revenues in the COVID-19 Period: The Need for Creating Zakat Accounting Standards in OIC Member Countries

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ABSTRACT

The Novel Coronavirus (COVID-19) pandemic has put the entire world into health and economic and social problems. Currently, finding a sustainable way out of the poverty caused by the pandemic had become a global concern. Unfortunately, even as poverty alleviation has long been a key issue in the agenda of OIC member countries, the emergence of the pandemic has pushed these countries into a poverty hole deeper than before. Islamic social finance instruments, particularly zakat, waqf and Islamic microfinance, are believed to be valid instruments that could mitigate the consequences of the pandemic. Against this, the present study aims to maximize zakat revenues in OIC member countries by creating zakat accounting standards. The study found only two existing zakat accounting standards for the computation of business zakat. The first one was developed by AAOIFI in 1998 and became effective in 1999, primarily for IFIs. Given the limitation and inappropriate application of AAOIFI's zakat accounting standard in the Malaysian context, the Malaysian Accounting Standard Board developed another standard suitable for the application by Malaysian firms adequate from 2016. Thus, the foregoing findings imply the need for each OIC member country to create the zakat accounting standard to adopt by its firms to maximize zakat revenues.

Keywords: Zakat accounting standards, COVID-19, poverty alleviation

INTRODUCTION

The outbreak of the novel Coronavirus infectious disease labelled as COVID-19 in December 2019 which started from Wuhan, China, and rapidly escalated to a pandemic state, is a major disaster for the global community. COVID-19 already affected nearly everyone in the world (Syed et al., 2020). The spread of the virus infections led to lockdowns, social distancing and quarantines by governments across the globe, which stopped economic activities, financial markets, etc. (Hassan et al., 2020). As a

result of the unprecedented social and economic damages brought by the pandemic, countries in the world are now sparing no effort to revive their economies for socio-economic development (Umar, 2021).

Currently, discovering durable solutions to the consequences of the COVID-19 pandemic has become a topical issue among scholars and practitioners in the world (Umar et al., 2021b). According to Hassan et al. (2020), the pandemic has brought a gigantic disruption in global finance and presents another challenge to Islamic

finance after the global financial crisis. Thus, the desirable search for ways of mitigating the impact of the pandemic led to the consideration of zakat as one of the instruments of Islamic social finance (Umar et al., 2021b). According to Qaradawi (1999), the word “al-zakat” has been mentioned thirty times in the Holy Quran. In literal terms, it simply means to grow and to increase. However, in Shari’ah, zakat is used to describe the redistribution of wealth as ordained by Allah (SWT) for the benefit of the deserving category of people. Zakat is an exceptional Islamic instrument used for wealth redistribution usually through the collection of designated amounts from wealthy Muslims and distribute among specified beneficiaries as provided by the Shari’ah (Migdad, 2019). It is believed to be the most appropriate way of poverty alleviation in Islamic society through the allocation of one’s wealth to beneficiaries (Razimi et al., 2016).

Considering the extreme level of poverty caused by the pandemic, the importance of maximizing zakat revenue is very profound. It is worth noting that zakat collections largely come from traders (Umar et al., 2021a). According to Adnan and Abu Bakar (2009), the collection of zakat was no longer constrained by individuals zakat payers but rather extends to wider institutional zakat payers, such as companies or corporations (Adnan and Abu Bakar, 2009). For instance, due to the positive performance and growth of companies in Indonesia, the potential of corporate zakat reached 6.7 trillion rupiahs and consequently makes its discussion very important (BAZNAS, 2020).

Hence, this study intends to propose a better way of maximization of business zakat through the creation

of zakat accounting standards, particularly in Muslim-dominated countries. To the best of the researchers’ knowledge, today there are only two zakat accounting standards. The first one was released by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). However, this standard was primarily meant for adoption by Islamic Financial Institutions (IFIs). Therefore, the standard may not fit the need of non-financial firms as they are different from IFIs in terms nature of assets, liabilities and other transactions. The second one was developed by the Malaysian Accounting Standards Board (MASB) for the adoption by Malaysian firms. However, this standard is local as it is only meant for application in Malaysia not universal. Lack of zakat accounting standards to guide traders in computing the zakat was found to have significantly contributed to the underpayment or non-payment of zakat (Umar et al., 2021). Further, they found zakat to have been underpaid and insignificantly contributed to poverty alleviation in Nigeria, largely due to keeping improper and complete records of zakatable assets and deductible liabilities. This is might be attributed to the lack of zakat accounting standard for guidance in keeping records and computation of zakat.

Furthermore, this study strongly viewed that zakat collections could be maximized for poverty alleviation in the COVID-19 period if local zakat accounting standards are not only created but also their awareness and knowledge are spread in OIC member countries. In this case, a good lesson could be learnt from the conventional tax. Although it is not divine each country in the world has the tax law and comprehensive guidelines that enable traders to know taxable and non-taxable

incomes as well as allowable and non-allowable expenses. These contribute significantly not only to the payment but also to the maximization of the tax for the provision of public goods.

The remainder of the paper is divided into five sections and arranged as follows: poverty in the covid-19 period, zakat and poverty alleviation, the need for developing zakat accounting standards, creating awareness and knowledge of zakat accounting standards and conclusion.

POVERTY IN THE COVID-19 PERIOD

Poverty alleviation across the globe is the first sustainable development (SDG-1) of the United Nations (Umar et al., 2021a). Worthy of note here is the fact that even before COVID-19, notwithstanding that extreme poverty has reduced to more than half, falling from 1.9 billion in 1990 to 836 million in 2015, yet, 12.7% of the world's population continues to live below US\$1.9 a day (Islamic Solidarity Fund for Development ISFD Strategy 2016-2025). However, with the onslaught of COVID-19 as seen in travel restrictions, lockdowns of cities and towns, large infection rates and related deaths in many countries across the globe including OIC countries, poverty rates are expectedly rising. In these circumstances, the vulnerable groups that could be hard hit (in South Asia and Sub Saharan Africa) include SME operators, skilled workers, women entrepreneurs widowed by deaths of husbands, incapacitated and people living with disabilities among others. According to the World Bank report (2020), poverty, as measured by the international poverty line, was expected to rise in 2020 for the first time since

1998. Economic forecasts indicated that the pandemic would cause a contraction in global per capita gross domestic product (GDP) growth of between 5 per cent (in a baseline scenario) and 8 per cent (in a downside scenario) during 2020. The report further indicates that in 2020, an estimated 88 million people worldwide would be pushed into poverty under the baseline COVID-19 scenario and as many as 115 million people under the downside scenario. The projected poverty rates in 2020 are similar to those in 2017. Consequently, the impact of COVID-19 is expected to set back progress toward ending extreme poverty by at least three years''

The foregoing indicated an expected increase in the number of poverty-stricken people across the globe. The Muslim ummah is no exception to this phenomenon. As disturbing as the regulations to contain the spread of the disease was the restrictions in movements that were imposed globally. This act no doubt inhibited production, manufacturing as well as service delivery activities. The resultant effect was a decline in production and manufacturing activities which in many jurisdictions are not automated and thus throwing the men and women into joblessness that further triggers poverty.

ZAKAT AND POVERTY ALLEVIATION

Giving zakat as a fundamental act of worship and as one of the five pillars of Islam seeks to create and preserve cohesion and solidarity among Muslims and non-Muslim dwellers in societies. As a religious act of worship, it mandates the haves (wealthy) to give out a portion (2.5%) of their wealth and property to the deprived and less

endowed members in the society. It is capable of lifting the spirit of human beings above the desire for wealth accumulation and set the beneficiaries free of material needs (Ayuniyyah et al., 2020). In other words, poverty could be alleviated in the Muslim world if zakat prudently implemented (Umar et al., 2021a).

It is imperative here to carefully note that in Islam, a clear indication is seen suggesting that poverty is detestable, and thus Islam strives towards its elimination from society. Kahf (1999) submits that zakat makes its beneficiaries to become assets and not liabilities by making them more functional and productive to the growth of the economy. Thus, the primary objectives of zakat giving revolve around alleviation of poverty as at least four (4) categories of the prescribed beneficiaries belong to the core poor segment of society. In addition to poverty eradication, zakat giving aims to remove undue amassing of wealth influenced largely by greediness among Muslims, thus encouraging socially oriented behaviour. In Islamic economic parlance, sufficient resources are to be shared to avoid hoarding and extravagance lifestyle among Muslims. Ultimately, zakat giving is expected to purify the income of the zakat payer and bring about a reconciliation of hearts of payer and beneficiary, after satisfying the basic needs of the poor and needy, thereby solving the social problems of poverty, unemployment, indebtedness and unfair income distribution (Dogarawa, 2009; Qaradawi, 1999).

Pamuncak et al. (2020) opined that zakat giving should be channeled to support productive activities of the poor and the needy instead of its distribution for consumption purposes of the poor and needy. This stems from the

suggestion from Islamic scholars. Pamuncak, et al. (2020) have further reported that some Muslim countries like Indonesia and Malaysia have introduced and practiced zakat for productive purposes, which is a financial aid program to support the poor and other mustahik (deserving categorized) setting up or growing their business until they reach the status of non-eligible for zakat funds. Previous studies in the context of several countries including Malaysia and Indonesia have provided evidence that zakat provided an effective alternative source of funds in addressing poverty problems (Yussoff and Densumite, 2012; Beik, 2009; Hassan and Noor, 2015). As noted by Ashurov et al. (2019), the prescribed eight *asnaf* in *zakat* represent diverse groups of needy people, thus providing a comprehensive solution to address poverty, enhance social welfare and sustainable development in the areas of education, healthcare, and protection of lives, enhancement of social wellbeing, among others as well as ensuring peace and prosperity of the planet. This is clearly manifested in the range of wealth that are liable to zakat payment obligations which are livestock, gold and silver, business inventory, farm outputs, honey and animal products, minerals and sea products, exploited assets and earnings of professional laborers.

Zakat is one of the Islamic finance instruments that could be used at different stages to provide solutions to the consequences of the pandemic (Hassan et al., 2020). Syed et al. (2020) also found that the adverse consequences of the deadly virus could be mitigated if zakat and *qardh al-hasn* are integrated. It is important to note that for zakat to alleviate poverty there must be a strong and effective agency

that is saddle with the responsibility of the management of zakat funds. Indonesia, Bangladesh and Malaysia are Muslim countries from which great lessons could be learned on zakat management. In accordance with Indonesian Law No.23 of 2011, the National Zakat Agency (BAZNAS) and the Amil Zakat Institute (LAZ) are saddled with the responsibility of the management of zakat in Indonesia (Hanafi, 2020). The history of zakat management is traced to Act No.23/2011 which amended the previous act of 1999 (BAZNAS, 2017; BAZNAS, 2020). BAZNAS is the apex body at the national level that is primarily responsible for planning, implementing, controlling and also reporting the collection, distribution and utilization of zakat in Indonesia (BAZNAS, 2020). One of the important tasks of BAZNAS is to realize the high potential for zakat collection in Indonesia (Ayuniyyah et al., 2020).

In Bangladesh, zakat is administered by the Center for Zakat Management (CZM). Officially, the CZM began its struggle of zakat management services on 14th September of 2008 in order to ensure proper distribution of zakat so as to positively change the lives of the poor and the needy in Bangladesh (CZM, 2021a). It is a pro-poor social enterprise that aims to promote the compulsory payment of zakat as ordered by Allah (SWT) with a view to promoting the prosperity of the needy in Bangladesh. With the zakat funds collected by the CZM, various projects have been executed in Bangladesh which changed the lives of various individuals and families in the country (CZM, 2021a). Currently, such projects include emergency humanitarian assistance program (insaniat), livelihood & human development program (jeebika), micro-

enterprise development (mudareeb), vocational training & employment program for poor youth (naipunna bikash), healthcare program for distressed women and children (ferdousi), education & nutrition program for underprivileged children (gulbagicha), scholarship program for undergraduate students (genius) and awareness building & motivational program (dawah) (CZM, 2021b). Currently, CZM initiated a new mechanism that effectively allows payment, utilization, mobilization and distribution of zakat in an organized and planned manner in order to significantly alleviate poverty in Bangladesh (Osmani and Al Masud, n.d). Interestingly, the CZM developed a zakat calculator on its website that allows zakat payers to easily compute their zakat liabilities.

In Malaysia, the collection and distribution of zakat funds are managed by states. Each state in the country has an institution called Pusat Urus Zakat (PUZ) which is primarily saddled with the responsibility of zakat management in an efficient and effective manner (Razimi et al., 2016). Zakat Collection Center (ZCC) in each state of the country is controlled by the state's religious council in charge of both collection and disbursement (Migdad, 2019).

THE NEED FOR DEVELOPING ZAKAT ACCOUNTING STANDARDS

Zakat accounting standard provides definitions and classification, recognition, measurement, presentation and disclosures of zakat issues. The first zakat accounting standard was issued by the Accounting and Auditing Organization for Islamic Financial

Institutions (AAOIFIs) to adopt by IFIs. AAOIFI's Zakat Accounting Standard (FAS No.9) was adopted by the Accounting and Auditing Committee Board in a meeting No. (15), held between 27 and 28 Safar 1419 AH (21 – 22 June 1998). The standard became effective from 1 Muharram 1420 A.H (1 January 1999). According to this standard, zakat to pay by an IFI should be 2.5% of zakat base for a lunar calendar and 2.5775% for a solar calendar. Besides, it provides two methods for determining zakat base of IFIs: net assets method and net invested funds method. Under the net assets method, zakat base is calculated as follows:

Assets subjects to zakat – (liabilities that are due to be paid during the year ended on the date of the statement of financial position+ equity of unrestricted investment accounts + minority interest + equity owned by government + equity owned by endowment funds + equity owned by charities + equity belonging to not-for-profit organizations excluding those that are owned by individuals (para.3)

Besides, using the net invested funds method, the zakat base is computed as follows:

Paid-up capital + reserves + provisions not deducted from assets + retained earnings + net income + liabilities that are not due to be paid during the year ended on the date of the statement of financial position (net fixed assets + investments not acquired for trading, e.g.

real estate for rent + accumulated losses (para. 7).

AAOIFI's standard for zakat provides that when the net assets method is applied in the computation, zakatable assets should be measured at their cash equivalent value while liabilities at book value. However, in the case of the net invested funds method, both assets not for trading and owner's equity should be measured at their book values.

Although the Malaysian Accounting Standard Board (MASB) had consideration for the AAOIFI's zakat accounting standard, it was found not suitable for application in Malaysia because of the following reasons:

- (a) the accounting treatment prescribed are specific for application by Islamic financial institutions that also act as collectors and distributors of zakat; and
- (b) the accounting treatments prescribed might run contrary to state or federal legislation in Malaysia (MASB, pp. 14-15).

Consequently, the second standard was issued out by the MASB. The adoption of this standard became effective on or after 1 July 2006. Two methods are thus provided in the standard to compute business zakat; adjusted growth capital (*urfiiyyah*) and adjusted working capital (*syariyyah*) and both methods are expected to provide the same results provided that the same accounting information is used. These methods were first published in 2001 by the Department of Islamic Development Malaysia (JAKIM) in a book entitled "Panduan Zakat di Malaysia" (MASB; 2006; Hamzat, 2009). An entity in Malaysia is expected to apply either of the two

methods with a view to calculating its zakat base. As approved by the National Fatwa Council in Malaysia, business zakat is equivalent to 2.5% of the zakat base. The formula for computing the business zakat base under each method is as follows:

- Adjusted growth capital model = equity + long-term equity – fixed asset – noncurrent Asset +/- adjustments.
- Adjusted working capital method: current assets – current liabilities +/- adjustments.

Further, there is a provision for adjustment in each formula in order to arrive at the value of the zakat base. In other words, adjustments should be made for items that do not satisfy the requirements for zakat assets and liabilities. The details of the items to adjust before arriving at the chargeable assets as follows:

Firstly, items that are not zakat obligated. These items have to be withdrawn from zakat calculation such as items and non-permissible products i.e. *riba'*, gambling and liquor. Secondly, limited ownership - water, telephone, electrical and its similar kinds of deposit shall be deducted as it does not comply with the requirements of full rights. Thirdly, financial debtors - any loans will be imposed zakat on the debtor based on the criteria that full ownership of the asset is transferred to the debtor. The debtor has the authority and freedom to manage the money for any purpose to gain benefits from the loan. Fourthly, no item that will be imposed zakat twice - the dividend value that has been paid zakat by the investment company will be excluded. Fifthly, the current asset must be productive - bad debts, dormant stock, obvious downtrend and permanent must be

deducted. Sixthly, charity-based funds - funds for the purpose of charity such as education that is located in the current assets will be exempted from zakat. Lastly, stock inventories - only finished products will be zakatable but raw materials and work in progress work will be exempted (Hamzat, p. 2009).

From the above discussion and to the best knowledge of the authors there are only two zakat accounting standards. The first one was issued out by AAOIFI primarily to adopt by IFIs effective from 1420 A.H (1999 A.D). Hence, due to observed weaknesses of the AAOIFI's zakat accounting standard, the MASB developed another one suitable for application in the Malaysian context with effect from 2006. For example, the working group for the creation of the Malaysian Zakat Accounting Standard comprised of the Chairman (who was the former member of the MASB) as well as representatives from the accountancy profession, academia, the corporate sector, zakat authorities and other user groups (MASB, 2006). This implies the need for each OIC member country to develop a zakat accounting standard suitable for the application by its companies in strict compliance with the Shari'ah. Professional Accounting Associations and other relevant stakeholders in each country should be saddle with the responsibility of developing the standard. For example, the standard will as guidance to allow firms in each of the countries to correctly compute their zakat liabilities. Consequently, the zakat collections could be maximized for poverty alleviation during the COVID-19 pandemic.

CREATING AWARENESS AND KNOWLEDGE OF ZAKAT ACCOUNTING STANDARDS

Generally, awareness and knowledge of zakat play a vital role in poverty alleviation. Education is very crucial in making people to pay zakat (Arif, 2017). Many stressed the importance of creating awareness and knowledge of zakat in order to alleviate poverty (Umar et al., 2021b). For instance, Abdelmawla (2014) found zakat and knowledge of zakat to have significantly contributed to poverty alleviation in Sudan from 1990 to 2009. Mustafa *et al.* (2018) also established that zakat awareness has a significant positive impact on poverty alleviation. Besides, a study carried out in some selected North-West African Countries, such as Algeria, Libya, Mauritania, Morocco and Tunisia established that a high level of awareness of zakat contributed significantly to an efficient zakat fund in the region (IRTI, 2020). According to Ayuniyyah et al. (2020), education pertaining to zakat and the role of zakat boards and institutions is one of the key strategies to strengthen the role of zakat boards and institutions in Indonesia. There is also the need to have adequate knowledge about existing economic activities, businesses, types of zakatable funds, zakat payees (individuals and organizations) procedures and operational processes (Hussain, 2019).

In specific, the need to create awareness and knowledge of the zakat accounting standard in each OIC member country is very profound. Business owners are expected to be taught the importance of recordkeeping practices and accounting treatments for zakat. Hence, there should be an effective collaboration among the stakeholders. Umar et al. (2021a) show

the need for collaboration between zakat agencies, traders association and professional association to train or inspire traders on the need to maintain proper and complete records of their financial transactions with a view to computing and paying the correct amount of business zakat.

However, the creation of awareness and knowledge of the general contribution of zakat in poverty alleviation and the benefits of zakat accounting standards in specific, would not be successful unless there is a strong and effective zakat management institution. Indonesia, Bangladesh and Malaysia are countries that have successful zakat administration when compared with other OIC member countries. In Malaysia and Indonesia, the collection of zakat revealed a remarkable and promising improvement (Adnan and Abu Bakar, 2009).

Besides, Indonesia as a country with the highest population of Muslims in the world could be seen as “qibla” for other countries Islamic countries on various religious issues like practicing, researching, and knowledge sharing of Islamic studies (BAZNAS, 2020). Osmani and Al Masud (n.d) asserted that the success of CZM in Bangladesh could be attributed to its productive activities and training facilities. Also, it is widely known that Malaysia has an advanced zakat system which serves as a benchmark worth studying and learning (Migdad, 2019). There are guidelines and specialists/consultants that assist zakat payers to compute their zakat In Malaysia (Migdad, 2019).

CONCLUSION

The emergence of COVID-19 brought unprecedented social and economic problems to the entire world.

Consequently, mitigating poverty brought by the COVID-19 pandemic in a sustainable manner is now a subject of discussion among regulators, practitioners and academics. Zakat which has for long been seen as a tested and trusted instrument for poverty alleviation is believed to play a crucial in alleviating poverty during the COVID-19 period. Thus, this study was carried to explore the importance of creating the zakat accounting standard in each OIC member country in order to enhance zakat collections. The study found only two zakat accounting standards that guide business owners in the determination of zakat due to their businesses. Zakat accounting standard was first released by the AAOIFI (FAS No.9) purposely to adopt by IFIs. The second one was released by the Malaysian Accounting Standard Board (MASB) for the application by firms operating in Malaysia as the first one ((FAS No.9) was to some extent not suitable for application in Malaysia. The findings imply that each OIC member country should develop the zakat accounting standard for its firms to adopt. Developing the standards in these countries during the pandemic would surely become useful in the computation of correct business zakat. Consequently, the zakat collections could be maximized for poverty alleviation.

It is essential to note that developing the standard is not enough to alleviate poverty until at least five measures are taken in each OIC member country. First, zakat management agencies must be established and strongly protected by law. These agencies must also be given all the necessary resources needed to discharge their functions effectively. Besides, only tested and trusted persons should be appointed to serve in the

management teams of these agencies. Second, awareness and knowledge of the zakat accounting standard must be created adequately through collaboration among the stakeholders. Specifically, zakat management agencies are expected to collaborate with the relevant academic and professional institutions, trade unions as well as relevant government and non-governmental organizations to educate the general public, particularly traders on the benefits of recordkeeping and determination of business zakat base. Third, Ulama (Islamic scholars) should be directed to be preaching on Islamic injunctions on the payment of zakat. Fourth, zakat should be integrated with other Islamic social finance instruments, such as waqf and Islamic microfinance, in order to efficiently and effectively alleviate poverty. Fifth, zakat management agencies must adopt modern Shari'a-compliant technology (Islamic fintech) in order to avoid fraud in the manual collection of beneficiaries of zakat as well as ensure the disbursement of the collected funds to the intended beneficiaries.

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