Exploring Zakat Efficiency in Urban Areas: A Case Insight from Pusat Pungutan Zakat (PPZ) and Lembaga Zakat Selangor (LZS)

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ABSTRACT

Zakat institutions play a vital role in achieving socio-economic justice. Thus, it is important to ensure the efficiency of zakat management, particularly in urban areas where the demand for zakat assistance is high. Zakat institutions in urban states are more efficient in zakat management due to the shift towards a more structured, corporatization and technology-based system. By exploring their efficiency level in zakat management, this study will identify the key factors contributing to the success of the zakat institutions. The purpose of this study is to analyze the efficiency of zakat institutions in Pusat Pungutan Zakat (PPZ) and Lembaga Zakat Selangor (LZS). The annual report data for PPZ and LZS between 2019 to 2023 will be analyzed using the data envelopment analysis (DEA) model. The study evaluates how these institutions utilize their resources to optimize zakat fund allocation, ensuring sustainability while addressing urban poverty and social welfare needs. The findings shows that the PTE for both zakat institutions scores higher compared to the SE score, which suggests that the efficiency of PPZ and LZS may be due to the technical aspect rather than their scale or size. This study will provide valuable insight of zakat management efficiency across the two institutions, highlighting the key factors that drive their success in urban areas.

Keywords: Data Envelopment Analysis (DEA), Efficiency, Urban, Zakat Institutions, Zakat Management

INTRODUCTION

Zakat is the third pillar in Islam that is obligatory for all Muslims. It is an act of worship in the same way as prayers, fasting and pilgrimage. Zakat means "growth, increase, purity and development," which refers to both spiritual and material purification. The act of giving zakat demonstrates mercy in society by reducing inequality, fostering solidarity and promoting social justice (Al-Haddad et al., 2024). Zakat becomes obligatory when the wealth exceeds the specified Nisab threshold. A predetermined portion of wealth which usually 2.5% must be distributed among the eight categories of Asnaf. According to Khamis et al., (2024), the effectiveness of zakat collection, management and distribution provides a safety net for the poor and needy, acting as a form of social welfare and economic empowerment within Islamic societies.

In Malaysia, zakat institutions are managed by the State Islamic Religious Council (SIRCs), but some have been corporatized to improve efficiency and effectiveness in collection and distribution. Corporatization involves establishing separate entities to handle specific aspects of zakat management, such as the collection or distribution of zakat (Ahmad Razimi et al., 2016). For example, in the state of Selangor and the Federal Territory, since their corporatization, both zakat institutions have shown an impressive increase in the zakat collection and distribution each year, becoming the top collectors and distributors of zakat funds. Figure 1 and 2 shows the growth trend of zakat collection and zakat distribution in LZS and PPZ.

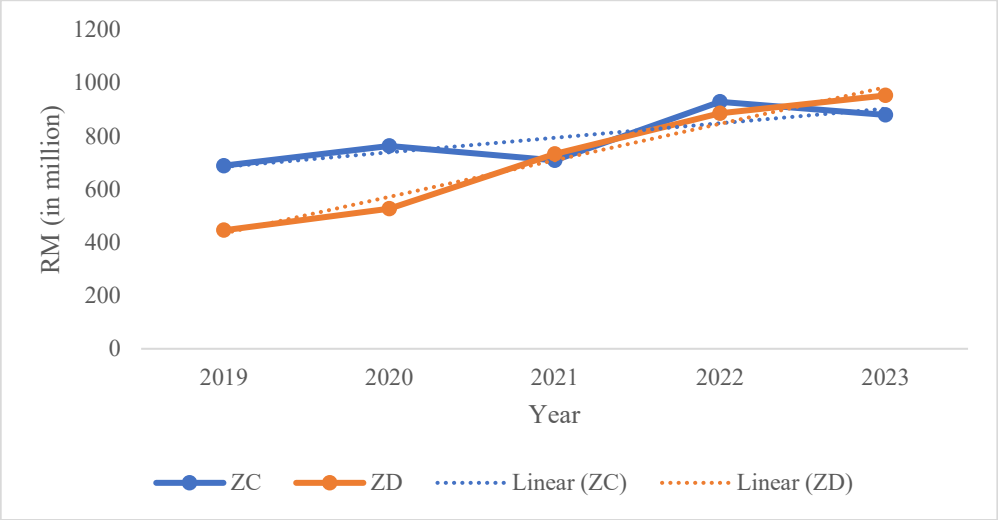

Fig.1 The growth trend of zakat collection and distribution in the Federal Territory from 2019-2023

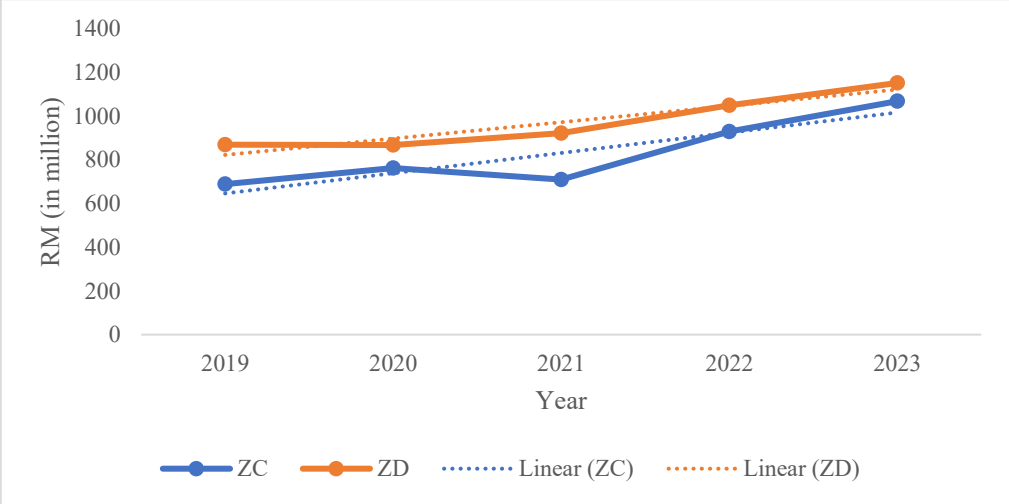

Fig.2 The growth trend of zakat collection and distribution in the Selangor from 2019-2023

The growth trend of zakat collection and zakat distribution in LZS and PPZ is not only driven by the corporatization of zakat institutions, but also due to the high population in urban areas, which contributes to a larger base of zakat payers and recipients as well as economic activity. However, nowadays, people are very concerned about the efficiency of zakat institutions. A study from Tuah Mahmood et al., (2021), stated that the zakat management system must be enhanced, especially the distribution aspect. Other studies also stated that inefficient zakat distribution had caused the targeted Asnaf to remain in poverty and unable to improve their socio-economic conditions, despite the increasing amount of zakat collected each year (Al Haq & Abd. Wahab, 2017). The issues of inefficient zakat management create a poor perception of zakat institutions, thus need to be measured through proper performance indicators to ensure transparency, accountability and the effectiveness of zakat funds.

LITERATURE REVIEW

Zakat is an instrumental tool to encourage economic growth. The zakat mechanism, which functions by transferring a portion of wealth from those who are eligible to those in need, serves as a support to economic stability, such as narrowing the income gap and enhancing employability (Putriani et al., 2020). According to Embong et al., (2013), zakat can eliminate poverty and improve their living standards. The poor people can move out of poverty through zakat assistance programs compared to those without zakat assistance. Thus, maintaining an efficient and effective zakat assistance program requires transparency and accountability to ensure the zakat fund can reach the targeted group and be utilized productively.

A study on the efficiency of zakat institutions in Malaysia has been done by many researchers. A study by Wahab et al., (2013), estimated the efficiency of zakat institutions using the DEA method, revealing that zakat efficiency is influenced by the technical aspect, such as resource utilization. Other studies reveal that the efficiency of zakat institutions are influenced by management's capabilities to utilize technology in managing zakat funds, which helps to increase transparency and accountability (Riani et al., 2024). Efficiency generally refers to the ability to achieve maximum output with the least or the same amount of input (Farrell, 1957). In measuring the efficiency, DEA is preferable since it is also used in measuring the non-bank institutions, including non-profit institutions such as zakat institutions. DEA method can utilize various inputs and outputs to assess the efficiency of zakat institutions in different countries and periods, providing valuable insights into the performance of these institutions.

The DEA method is often categorized into three types of efficiency, which are technical efficiency, Pure technical efficiency and Scale efficiency. These categories help to understand how efficiently an organization uses its resources (Asmild et al., 2007). Technical efficiency is the efficiency which an output is produced using a given set of inputs. An organization will be technically efficient when it can produce the maximum output from the minimum input. Overall technical Efficiency can be decomposed into Pure Technical Efficiency and Scale Efficiency. While TE is to measure how efficiently an organization converts input into output, the PTE and SE help to understand the specific area of efficiency.

METHODOLOGY

This study analyzes the efficiency of 2 zakat institutions using DEA with a window-based approach. Data used for both input and output variables sourced from the annual report of zakat institutions in 2019-2023. DEA is a quantitative research methodology used to estimate the relative efficiency of a business unit using its resources. DEA with linear mathematical techniques can compare units that have different inputs and outputs (Hadi-Vencheh & Asghar Foroughi, 2006). Efficiency is measured by analyzing the input and output variables. By using the production approach of efficiency, the chosen variables as inputs are the zakat expenditures. On the other hand, zakat collection and zakat distribution are the output variables. The input used in this study is according to Ryandono er al., (2021), which used cost variables, while the output refers to the results aimed at improving the efficiency of zakat institutions, specifically in the collection and the distribution of zakat. In addition, the assumption of variable returns to scale is used to explain the conditions for the use of inputs (costs) to produce output (zakat collected and zakat distribution), whether the use of inputs is optimal or not. Zakat institutions are considered efficient if it has an efficiency value close to 1 or 100%

RESULTS AND DISCUSSION

Table 1 shows the descriptive statistics of the inputs and output values for 2 zakat institutions. The mean, median, standard deviation, minimum value and maximum value of each indicator in this study are shown in Table 1. The number of samples is 10, consisting of 2 zakat institutions during the period 2019-2023.

Table 1 Descriptive statistics

	Mean	Std. Dev.	Minimum	Maximum
OUTPUTS				
Zakat Collection	812.083	130.770	688.41	1067.86
Zakat Distribution	840.017	218.3746	455.35	1151.1
INPUTS				
Zakat Expenditures	103.472	19.373	86.05	143.888

Based on the calculation results of DEA method, the efficiency scores of the two zakat institutions, which are technical efficiency, pure technical efficiency and scale efficiency, are shown in Table 2, Table 3 and Table 4. Figure 3 shows the technical efficiency score graph for 2 zakat institutions. LZS was found to be technically

efficient in 2019 and 2021 and was least efficient in 2020. The input variables showed an increase from 2019 to 2020, which contributed to the lowest efficiency score in 2020. PPZ's technical efficiency was 100% in 2023 and was least efficient in 2019. This is also due to the decreased amount of zakat distribution, which contributed to the lowest efficiency score in 2019. In overall technical efficiency, LZS scored higher than PPZ.

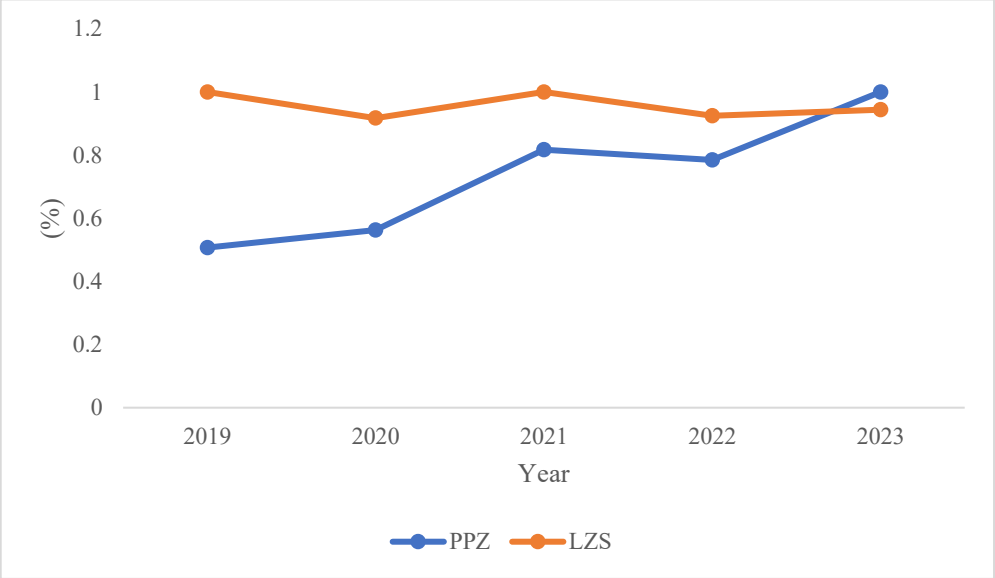

Fig.3 Technical efficiency scores

Table 2 Zakat Institutions Technical Efficiency Score

TE	Score				
	2019	2020	2021	2022	2023
PPZ	0.507	0.563	0.817	0.785	1.000
LZS	1.000	0.917	1.000	0.925	0.944

The pure technical efficiency score for PPZ in Figure 4 shows a steady increase from 2019 to 2023, while LZS's pure technical efficiency score remains the same over the years. The PTE score of PPZ is found to be the highest in 2019, 2021 and 2023, while in 2020, the PTE score of PPZ is the lowest. The input variables showed an increase from 2019 to 2020, which contributed to the lowest efficiency score in 2020.

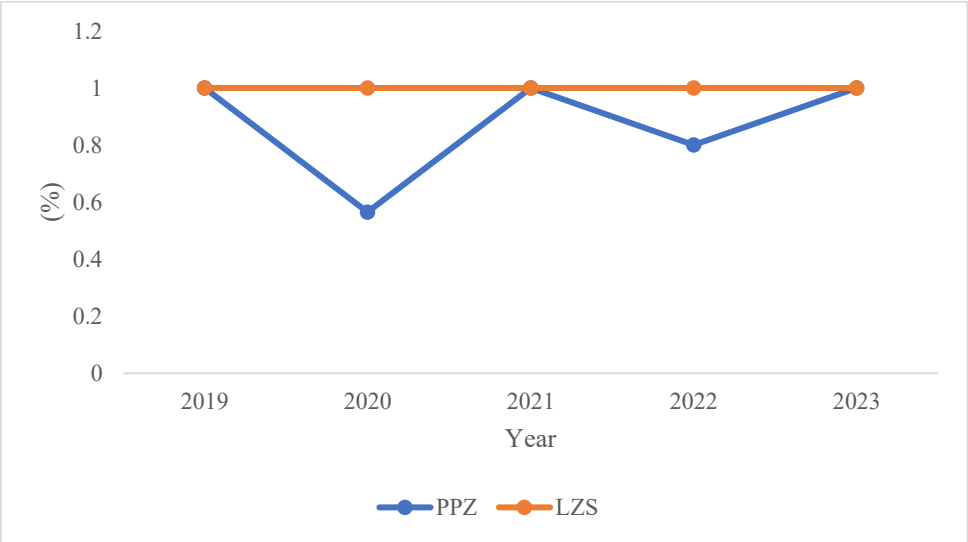

Fig.4 Pure technical efficiency scores

Table 3 Zakat Institutions Pure Technical Efficiency Score

PTE	Score				
	2019	2020	2021	2022	2023
PPZ	1.000	0.565	1.000	0.800	1.000
LZS	1.000	1.000	1.000	1.000	1.000

Figure 5 shows the Scale efficiency score for 2 zakat institutions. For PPZ, the highest SE score was in 2023, while the lowest was in 2019. The SE score of LZS is found to be the highest in 2019 and 2021, while the lowest was in 2020. The inefficiency of both zakat institutions is caused by an increase in input amount and a decrease in zakat distribution, which also reflects a similar pattern in TE and PTE scores.

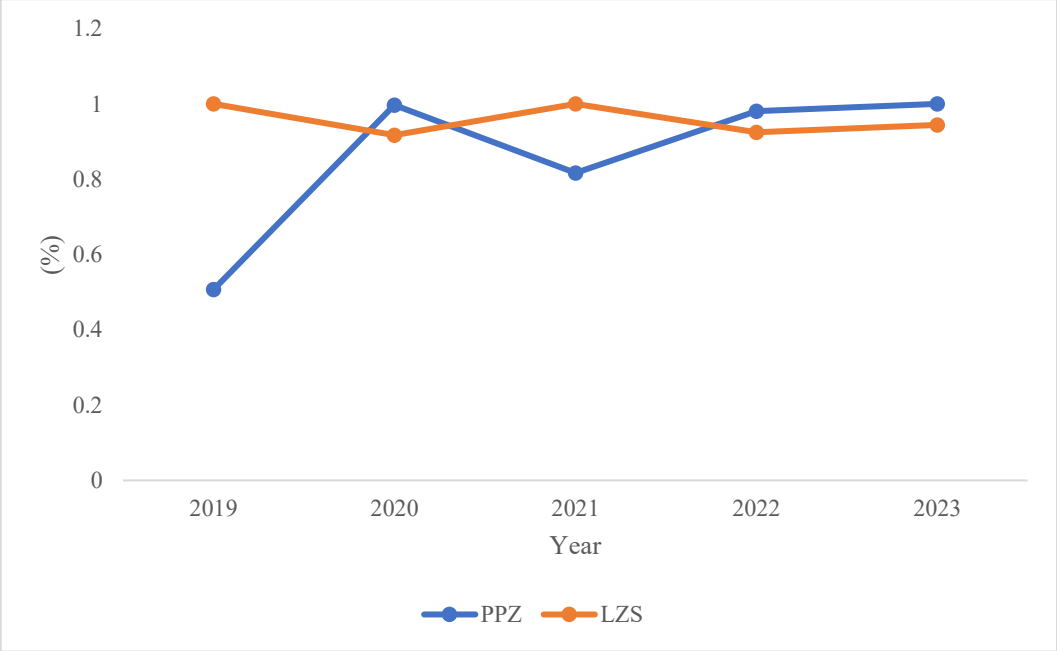

Fig.5 Scale efficiency scores

Table 4 Zakat Institutions Scale Efficiency Score

SE	Score				
	2019	2020	2021	2022	2023
PPZ	0.507	0.997	0.817	0.981	1.000
LZS	1.000	0.917	1.000	0.925	0.944

CONCLUSION

Overall, the PTE for both zakat institutions scores higher compared to the SE score, which suggests that the efficiency of PPZ and LZS may be due to the technical aspect rather than their scale or size. In other words, it shows that LZS and PPZ have relied more on improving their operational processes and internal capabilities to deliver services more effectively. There is no significant difference in the efficiency level for PPZ and LZS. Both zakat institutions utilize their input proportionately to ensure minimum cost incurred to produce a given input (amount collected and amount distributed at a given input price (cost of collection and cost of distribution). The results of this research can help zakat institutions in evaluating the efficiency score by identifying the variables that need to be improved in order to obtain the maximum level of efficiency.

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