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Institutional Governance of Zakat: A Conceptual Framework for Centralized and Decentralized Systems

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Abstract

Zakat is a fundamental institution in Islam that promotes social justice, poverty alleviation, and equitable wealth distribution. Its effectiveness largely depends on the system through which it is collected, managed, and distributed. This article develops a conceptual framework for understanding and comparing centralized, decentralized, and hybrid models of Zakat administration. The study defines Zakat and examining its Qur'anic foundation, highlighting its role in achieving socio-economic balance and community welfare. It explores three governance models: the centralized model, where the state has primary authority over Zakat administration;

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the decentralized model, where collection and distribution are managed by communities, charitable organizations, or individuals; and the hybrid model, which combines state oversight with community participation. The article examines key governance principles, including accountability, transparency, regulatory oversight, public trust, compliance, and administrative efficiency, as criteria for evaluating the effectiveness of each model. It identifies the strengths and limitations of centralized and decentralized approaches and presents the hybrid model as a balanced alternative that integrates institutional coordination with local responsiveness. The proposed framework provides a systematic basis for analyzing Zakat governance systems and their potential contribution to poverty reduction and social welfare. It offers valuable insights for policymakers, researchers to strengthen Zakat institutions through effective, transparent, and accountable governance through Islamic social finance framework.

Keywords: *Zakat, Accountability, Centralised Model, Transparency, public trust. Regulatory oversight.*

Introduction

Zakat is not a charitable obligation, but a fundamental pillar of Islam deeply rooted in the principles of social justice, economic equilibrium and the spiritual purification. It serves as the divine mechanism for the redistribution of wealth, ensuring that the gap between the rich and the poor is bridged and that every member of society receives their due right.

The effectiveness of Zakat in alleviating poverty and promoting social welfare depends significantly on the system through which it is collected, managed and distributed. Different Muslim countries adopted different approaches based on their historical, political and social context. This research introduces the three models for Zakat management: the centralised model in which the state has full authority; the decentralised model which relies on the local communities and individual responsibility and the Hybrid model which seeks to combine the strength of both centralised and decentralised approaches.

1.1. Definition and Purpose of Zakat

Zakat is the distribution of the specific portion of specific amount to the specific person mentioned in Quran by Allah almighty. Zakat is among the key principles, and it is mandatory for a person who has the amount on which the Zakat becomes obligatory. Zakat is the required form of charity in Islam. It is a way to share wealth among the people. And to reduce the gap between the rich and the poor. [1]Allah SWT has commanded every Muslim who can afford the required amount to help those in need and create social justice in society. Muslims who meet the condition must give 2.5% of their wealth to the people who are deserving and are allowed to received Zakat.

Wealth is often acquired personally through hardworking effort and strong commitment. Thus, when we offer or distribute even a tiny bit of this, it demonstrates our strong belief in Allah (S.W.T). Zakat is a duty and a source of

fulfillment it enables a Muslim to receive the blessings of Allah. It purifies and increases the wealth of a person. [2]

الَّذِينَ يُنفِقُونَ أَمْوَالَهُمْ فِي سَبِيلِ اللَّهِ ثُمَّ لَا يُتْبِعُونَ مَا أَنفَقُوا مَنًّا وَلَا أَذًى لَّهُمْ أَجْرُهُمْ عِندَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ وَلَا هُمْ يَحْزَنُونَ

Those who spend their wealth in the way of Allah and then do not follow up what they have spent with reminders of their generosity or with injury, will have their reward with their Lord. There will be no fear concerning them, nor will they grieve. (*Al-Baqarah 2:262).*

Allah mentioned in the Ayat of Sura Al Baqarah verse 110:

وَأَقِيمُوا الصَّلَاةَ وَآتُوا الزَّكَاةَ وَارْكَعُوا مَعَ الرَّاكِعِينَ[3]

"And be steadfast in prayer and regular in charity: and whatever good you send forth for your souls before you ye shall find it with God; for God sees well all that ye do".4

In the other Ayat in Surah Al-Baqarah Ayat 262, Allah said

"Those who spend their substance in the cause of God and follow not up their gifts with reminders of their generosity or with injury for them their reward is with their Lord; on them shall be no fear nor shall they grieve[5]"

1.2. Models of Zakat Administration

Zakat Management is system of organizations for the collection, distribution and managing obligatory alms in Islam. It is to satisfy one of the great religious obligations by transferring the wealth of its owners into eight types of recipients identified in the Quran as the poor, needy debtors, those on a journey and others. If Zakat were collected and managed efficiently according to the principles of Shariah people start trusting Zakat institutions. Zakat[6] is one of the pillars of Islam and individuals who can fulfill this command receive the blessings from Allah. If Zakat administration according to the principles of Shariah and can be done in organized manners, it can help overcome the poverty

The main and important goal of any model is to transfer the amount of Zakat directly to the deserving people without corruption and any misleading process. There are three different models of Zakat administration, and these are different in different countries. These are as follows:

1.2.1. Centralised Model

In centralised model the state or an organization designated by the government is primarily in charge of collecting, handling, and allocating Zakat. Centralised[7] systems work under a single point of control and a single authority that has a charge of fully control manages and distributes the amount of Zakat. In

centralised Zakat collection system, a single authority controls all the information, decisions and work processes.

Zakat collection is frequently required, Citizens must pay their Zakat to a designated government agency, or it can be automatically deducted from their salaries. It is officially collected from the government. This type of system is more effective. Government directly deducts Zakat from the accounts of the people who have the amount equal on which Zakat becomes due. In many countries like Pakistan, Malaysia and Saudi Arabia uses centralised framework for the collection of Zakat.

1.2.1.1 Advantages of Centralised Model

- **Efficiency:** In the centralised system, the government has uniform policies and procedures for the collection of Zakat. It can prevent duplication of effort.
- **Clear decision making**[8] because of uniformity and proper rules and regulation there is no chance of comparison between the institutions that are working together.
- **Consistency & Uniformity**: National standards of policies and quality.
- **Transparency: C**entralised system has better transparency, being honest and clear in communication and action.
- **Accountability:** Solid accountability, everyone is accountable and responsible for their action.
- Large scale poverty elevation programmes.
- Uniformity in action with proper rules and regulations.

1.2.1.2 Disadvantages of Centralised Model

- **Weak public trust:** Due to bureaucrat government.
- **Bureaucracy**: Funds move slowly no proper manage and distribute Zakat.
- **Low community involvement:** Government itself managed amount of Zakat that's why community involvement is low in centralised Zakat collection.
- **Inefficient**
- **Trust deficit**: People didn't allow them to participate, and they didn't even know that due to corruption their amount reached the poor or needy they start losing trust in them.

1.2.2 Decentralised Model:

Decentralised approach is the system of Zakat in which Zakat is distributed through different local communities and Zakat collected in the individual levels. In this approach each Muslim bears personal responsibility they determine their own Zakat and distribute it to qualified individuals directly or via their preferred private charity. In[9] Decentralised systems authority and decisions making power

are distributed across various independents institutions. In decentralised system blockchain is the best example where everyone works their own and no single authority has control over anything.

In Decentralised Zakat collection system, there is no single authority that manage and distributes Zakat amount. There are different countries that used the centralised system for the collection of Zakat because of the high level of public trust that their Zakat amount should transfer to the poor and needy people.

1.2.2.1 Advantages of Decentralised Framework

- **Strong Public trust:** People have strong belief that their amount should be directly transfer to the needy people.
- **No chance of bureaucrat government.** Because the amount directly transfers through local communities.
- **Efficiency in distribution**: By transfer locally, there is a greater chance for the amount to spread faster and quickly.
- **Participation of local community**: Participation of local communities builds more trust in people that the amount should directly transfer to the deserving people.
- **Shared authority[10]:** Everyone takes part in the decision-making process because every community or Zakat agency works by communicating with each other

1.2.2.2 Disadvantages of Decentralised Model

- **No uniform policy:** Every local body has their own rule for the transfer of Zakat amount.
- **Lack of transparency:** Higher risk of mismanagement and lack of clear standard procedures at the local level.
- **Poor decision making:** Everyone tries to give their own point of view so no proper decision-making process, not a single authority making decisions.[11]
- **Uneven distribution**
- **No proper coordination**: Everyone in the local communities trying to become dominant over each other, resulting in uneven distribution.

1.2.3 Hybrid Model and Semi-Governmental Models

Hybrid model is the combination of the two models centralised and Decentralised (private community management) for the collection of Zakat. If the country uses hybrid models for the collection of Zakat in their country that's means, there is government sponsored companies as well as participation of community for the collection and distribution of Zakat. By using hybrid models for the collection country in any country, it increases public trust, efficiency and transparency because of the involvement of community.

Semi-governmental model is the hybrid system of collecting, managing and distributing Zakat. In this system everyone participates voluntarily in managing Zakat. Semi-government bodies usually work side by side with non-governmental Zakat organizations. The state helps things run smoothly and makes the rules that everyone must follow. The government sets up a framework to keep Zakat management transparent and in line with Shariah principles.

1.2.3.1 Advantages of Hybrid Model

- Bring new ideas from communities makes it easier for the collection of Zakat.
- Public/private collaboration.
- More flexible and fast Can change plans quickly when needed
- Implementation of this model conforms to the principles of Shariah's and fulfills the Sustainable Development Goal (SDG) of good health and well-being.[12]

1.2.3.2 Disadvantages of Hybrid Model

- No uniformity because of both parties' involvement.
- Bring confusion in making goals
- Zero accountability when problem occurs everyone puts blames on other no one charger responsibility and then thing gone worse.
- Private parties might end up taking the profits while the public side takes on all the risks.

1.3 Governance Concepts Applied to Zakat Institutions

The concepts that are applied to Zakat institutions primarily refer to public trust, efficiency, better transparency, accountability. If the Zakat institutions practices governance concepts according to Shariah resulting the strong public trust. [13]Good governance is a key factor in economic growth, social progress, and achievement of good governance and a peaceful full society. Good Governance has a clear and a positive effect on muzzaki behavior in giving Zakat because their trust in the system increases and for being efficient in collecting and managing Zakat.

Therefore, Zakat should be collected and managed according to the Shriah and reached the deserving and needy people. The key governance concepts are as follows:

1.3.1 Accountability, Transparency, Regulatory oversight

Accountability means being accountable and responsible. On the other hand, Transparency means being open and clear about their work as well as their actions. These two factors in any administration are the important factors for resulting in respectable governance. It is the duty of any governments to make management effective and their decisions obediently.[14] Being transparent and accountable means when the government makes the decisions they do what is est

for the people. Therefore, in any Zakat institutions these principles must follow to collect, manage and distribute Zakat according to Shariah that easily reach to the deserving people. The guidelines for good governance are shaped by key concepts in public administration are public value creation, public trust.

In achieving a variety of political and administrative justice the government must be accountable and transparent. The essential elements that build strong relations between the people and the state are accountability and transparency. Management of Zakat, at any system is designed to ensure efficiency, transparency, and compliance with Shariah principles[15]. If the people in a Zakat institution are accountable for what they do and make fair and clear decisions, and follow proper rules and regulations, the result is higher public trust. Regulatory Oversight is the important factor in any institution. Government must ensure that any organization follows proper rules. The main duty of the government is to check that the organizations work properly. In the corrupt government everything becomes mismanaged. For Zakat, government must ensure that Zakat should be collected and distributed fairly. The amount should be distributed to the deserving people according to the principles of Shariah. Being accountable about their actions and following the rules and regulations, better transparency gains more public trust. All these principles are interlinked with each other.

1.3.2 Public Trust and Compliance

Public trust is the confidence of the people in their government that government act fairly, honestly and efficiently. Public trust is a fundamental element of an effective Zakat system, as contributors expect their Zakat to be collected, managed, and distributed fairly in accordance with Shariah principles. Trust in Zakat institutions is strengthened through transparency, accountability, and ethical governance, which enhance public confidence and encourage greater compliance and participation in the Zakat system.[16]. Authorities are becoming an important factor influencing people to perform their Zakat obligations with formal governing institutions and when there is no trust in Zakat authorities this may cause people to start giving and paying Zakat by their own and this cause decreases in Zakat collections. High public trust inspires more people to pay Zakat through the institution, because of their trust in the government of acting fairly, which increases efficiency and social impact. Lower trust can lead to mismanagement, reduced donations, and lack of legitimacy. Compliance refers to the extent to which governments, institutions, and individuals adhere to established laws, regulations, and Shariah principles in the administration of Zakat.

1.3.3 Analytical Framework

The analytical framework of this study is to examine that how these Zakat administration models such as centralised, Decentralised and hybrid model functions and how these models effectively collect and distribute Zakat according to the principles of Shariah. These frameworks focus on the key principles such as transparency, efficiency, compliance and gaining public trust by distributing Zakat fairly. The framework allows comparison between these models regarding collecting, managing and distributing Zakat according to Shariah and examines their strength and weaknesses in their performances regarding poverty alleviation and maintain social justice.

1.3.4 Institutional Theory or Governance Theory

Institutional Theory or Governance Theory provides theoretical foundation in any Zakat organization for the management of Zakat fairly and justy. In the Zakat context governance theory emphasizes the importance of transparency, efficiency, public trust and accountability. If the government fulfils all the Shariah principles and distributes Zakat according to Shariah, it will result in strong public trust and enhanced public confidence. In the other hand weak governance breaks the public confidence and they start losing trust on the government and start giving Zakat by their own rather through formal institutions. Institutional theory helps us explain why centralised systems may suffer from trust deficits, why is it so hard for the people to trust them, why Decentralised systems face coordination and transparency issues, and why hybrid models challenge to balance government authority with community participation.

1.3.5 Islamic Economic Principles

Islamic Economic Principles derived from the primary and secondary sources and the objective of the principle of Islam, to gain success by ensuring justice, equity and social welfare here and hereafter. Islamic economic principles in the foundation of Zakat governance guides how Zakat should be managed and How community and the state should collect, manage and distribute Zakat. Zakat is not only a financial means but a religious obligation of achieving social justice, economic balance, and poverty reduction. The Qur'an clearly defines Zakat importance and emphasizes fairness, responsibility. Principles like accountability, efficiency, transparency and public trust are central to Islamic economics and must be reflected to Zakat institutions, state and the association that collect Zakat must distribute it according to these economics' principles. These principles serve as both the moral and effective framework ensuring that Zakat should be equally managed and these Zakat systems contribute to sustainable social development and fulfil the Shariah principle.

Conclusion

This article explains different ways that use to collect and managed the amount of Zakat such as centralised system in which there is a single authority to collect managed and distribute Zakat, on the other hand in Decentralised system there is no single authority to collect, managed and distribute Zakat and hybrid system there is the mixture of both. Each system has its own strength and weaknesses. In centralised system there is uniformity have proper rules and regulations but weak public trust on the other hand in Decentralised system there is no uniformity no proper rules and regulation but have high public trust. In hybrid system this system tries to balance both approaches by combining government and community involvement. This article explains that Zakat system should have these key principles, and all the Zakat agencies must ensure these key principles: **Transparency** (being open about every matter), accountability (being responsible for every action), **Regulatory Oversight** (having proper checks and rules). When people trust the process of managing and distribution of Zakat according to the principles of Shriah they are more likely to give Zakat. Collection of amounts of Zakat is not only just the collection of Zakat amount but also to ensure public trust, social justice, helping the poor and deserving people and to build a fair society where wealth flows from rich to poor and to those in need according to the commands of Allah.

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