

Governance of Formal Zakat Institution in Saudi Arabia; Issues and Challenges to Improving Zakat Payers' Compliance

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ABSTRACT

This study investigates the issues of governance practices of the formal zakat institution in Saudi Arabia, GAZT. It also attempts to develop a framework which explains how to improve zakat compliance through good governance. In order to achieve these objectives, the study employs a content analysis of relevant literature and qualitative interviews. Specifically, a total of 21 interviews were conducted with zakat experts in Saudi Arabia who represent diverse backgrounds to explore the issues and factors related to zakat governance-compliance relationship. The findings of the interviews' analysis suggested several issues that likely affect zakat payers' compliance in the Saudi context. These issues included the lack of control mechanisms that guarantee zakat payers' compliance, the perceived image of the GAZT role in relation to zakat, the lack of trust, and issues affecting the perceived procedural fairness. In addition, the analysis of the qualitative interviews was used to develop a framework that explains how to improve zakat compliance through good governance. This study contributes to the literature by investigating governance issues and challenges to improving zakat payers' compliance. Also, it provides practical implications for zakat administrators, especially in Saudi Arabia, to address these issues and improve the effectiveness of the zakat authority.

Keywords: zakat institutions, governance, Saudi Arabia, zakat payment compliance

INTRODUCTION

Zakat is a monetary, religious duty imposed on Muslims whose wealth is entitled to zakat payment according to shariah principles (Al-Qaradawi, 2002). The importance of zakat is manifested through its ranking among the five pillars of Islam and its sizable socio-economic impact within the Muslim communities. Zakat is intended to provide a fair redistribution of wealth, aiming to alleviate poverty and reduce the socio-economic gaps. Zakat in the early history of Islam, had played a crucial role in the socio-economic

prosperity and development of Muslim societies. Several reports suggest that zakat was effective in eradicating poverty in certain times. For instance, during the period of Umar bin Al-Khattab (13-22H) and Umar bin Abdul Aziz (99-101H), it was reported that zakat officers could not find needy recipients in some regions (Al-omar, 1996; Al-Qaradawi, 2002). These examples are evidence that zakat can be a powerful and effective mechanism in combating poverty and income inequality, especially if appropriately managed.

Despite the enormous impact of zakat in the past, it is believed that the role of zakat has been insignificant in contemporary Muslim countries. Evidently, many Muslim countries suffer from widespread poverty and increasing income inequality. Many scholars assert that zakat has not been allowed to fulfil its potential role within the economic policies of current Muslim countries (Al-Qaradawi, 2002; Shaikh, 2016; Shihata, 2006). The absence of formal and regulated zakat institutions in the majority of Muslim countries are evidence of their negligence to the role of zakat. However, a few Muslim countries have established zakat regulations and institutions for managing zakat, such as Saudi Arabia, Sudan, Malaysia, and Pakistan. Nonetheless, it is believed they are facing significant challenges with ensuring zakat payment compliance and improving their effectiveness (Guermat, Tucker, & Al-Utaibi, 2003; Saad & Haniffa, 2014; Shirazi & Amin, 2006).

Although Saudi Arabia is seen as an immensely wealthy and resourceful country, poverty is said to exist on an increasing scale over the years. Despite the lack of official statistics concerning poverty in Saudi Arabia, several reports have indicated the significant magnitude of poverty that exists in the Kingdom. For example, S. AlDamigh (2014) mentions that the Gulf oil states are hardly distinguished between the rest of the Arab countries in the Human Poverty Index (HPI). According to statistics from the human development reports and other social indicators, Saudi Arabia has a poverty range between 10 – 20%. Moreover, there are non-official reports

estimating that about 20% of Saudis live under the poverty line (S. AlDamigh, 2014). Another indication of the extent of poverty can be seen in the numbers of welfare programs recipients. According to the latest official report, there are 1,222,411 citizens registered in the Social Security Agency under the Ministry of Labour and Social Development (Saudi Ministry of Labour & Social Services, 2017). This number represents about 16% of the Saudi population, excluding the non-Saudi citizens.

The rising poverty and increasing cost of living in the Kingdom have raised the public concerns over the effectiveness of the zakat authority in combating poverty issues. Such concerns have frequently been voiced, especially by zakat payers who are legally obligated to pay their zakat through the General Authority of Zakat and Tax (GAZT), which is the official zakat collection body in Saudi Arabia. Moreover, zakat payment compliance is deemed to be a significant challenge facing GAZT. The lack of zakat payers' compliance is evident based on recent statistics published by the GAZT which reported the numbers of submitted zakat statements by business owners who complied with zakat rules in the last two years in comparison with the total registered businesses subject to zakat laws (see figure 1). Furthermore, previous studies estimating zakat potential could indicate to the significant zakat gap in Saudi Arabia between the formally collected zakat proceeds through the GAZT and the estimated zakat potential (see Farhan, 2008; Shaikh, 2016, Kahf 1989).

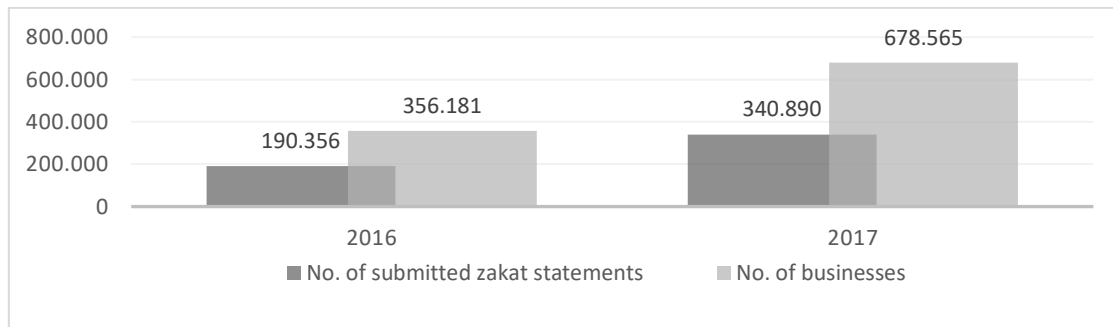


Figure 1. Level of Zakat Non-Compliance Issues in the Last Two Years

Source: statistics were retrieved from gazt.gov.sa

Despite the early establishment of the formal zakat institution in Saudi Arabia, there has been limited literature addressing the issues and challenges facing the zakat authority. However, few previous studies have suggested a significant extent of compliance issues and zakat evasion cases in the GAZT context (AlSaad, 2013; Al-Utaibi et al., 2003). Specifically, Al-Saad's study (2013) concerning zakat evasion in the GAZT context suggested that the lack of trust was found to be a significant factor leading to zakat evasion. In addition, it was mentioned that the lack of transparency of the GAZT regarding the distributions process triggered zakat payers' concerns regarding the appropriate treatment of zakat fund. The issue of trust has also been mentioned in Al-Utaibi et al. study (2003), which referred to the absence of shariah supervisory as a cause of concerns for zakat payers. Accordingly, such issues could be linked to the governance practices of the GAZT, which this study attempted to investigate. The term governance can be defined as "the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved" ((IFAC) & (CIPFA), 2014). The process of governance includes making and implementing decisions, setting strategies, and giving directions in

compliance with the regulations and objectives of the entity.

There are several studies that have discussed governance of zakat institutions in several contexts, such as the relationship between governance and performance (Fadilah, 2013); governance and efficiency (Abd Wahab & Abdul Rahman, 2011); and governance and zakat payers' trust (Abioye et al., 2013). However, the current study employs a qualitative approach to investigate the issues pertaining to the governance of the Saudi Zakat Authority, the GAZT, and how to improve zakat payers' compliance through good governance practices. Accordingly, the rest of the paper is structured as follows: section two provides a background to the Saudi zakat system. Section three discusses the methodology employed in collecting and analysing the data in this study. Section Four discusses the issues pertaining to the governance of the GAZT based on the interviews' analysis. Section five elaborates on how to improve zakat compliance by implementing good governance practices. It also presents the developed framework that explains the influence of governance practices of formal zakat institutions on zakat payers' compliance. Section six concludes the paper and provides suggestions for future studies.

BACKGROUND ON THE SAUDI ZAKAT SYSTEM

The Kingdom of Saudi Arabia is an Islamic country that derives its laws and legislations from the Quran and the tradition of the Prophet (PUBH) according to its Basic Law, which is regarded as the constitution. Hence, the imposition of zakat has long been articulated in its Basic Law, authorising the Saudi government to collect and distribute zakat for the entitled beneficiaries (The Saudi Basic Law, Article 21). Moreover, AlLami (2015) claims that zakat is regarded as a form of taxation since the Saudi Basic Law does not accommodate other ad-hoc taxes as the case with zakat. As a matter of fact, the Saudi Basic Law restricts the government from imposing taxes except when needed and on a fair basis (The Saudi Basic Law, 1422, Article 20). Accordingly, the Department of Zakat and Income Tax (DZIT), currently the GAZT, was established in 1951 as the official body to handle the collection of zakat. Also, the first Zakat Law was issued in the same year, setting up the regulations and role of the DZIT. According to the GAZT regulations, the main objectives of the GAZT are to calculate and collect zakat on business inventory from Saudi companies and individuals operating in the Kingdom. In addition, the GAZT is tasked with levying taxes from non-Saudi businesses, besides the recently introduced Value Added Tax (VAT). However, the distribution of zakat is carried out by another agency, the Social Security Agency (SSA), under the Ministry of Social Affairs. Specifically, the collected zakat proceeds by the GAZT are regularly transferred to a special account at the Saudi Central Bank SAMA, which, then, transferred to the Social Security Agency (SSA) of the

Ministry of Social Affairs. The SSA is the official body handling the distribution of zakat proceeds beside the funds allocated from the public treasury aiming to provide financial assistance to needy categories of the Saudi citizens

Thus, the mandatory collection of zakat through the formal zakat authority, the GAZT, applies only on business entities possessing commercial records and permitted to operate in Saudi Arabia. With regard to the other forms of wealth, there is no official channel to manage the collection of zakat, such as personal bank accounts and other non-commercial assets. However, zakat on agricultural produce and livestock is collected by ad hoc committees appointed by the Ministry of Finance in coordination with other government agencies (Jamjoom, 1990).

The recent change to the GAZT, from a sub-department under the Ministry of Finance into an independent authority that took effect in April 2017 has brought new structural changes within the GAZT governance. This administrative change was also followed by new zakat regulations which gave the GAZT legal and financial independence from the Ministry of Finance. Moreover, the new regulations have brought new governance components in the GAZT organisational structure, such as the Board of Directors and the Shariah Committee. The Board of the GAZT is chaired by the Finance Minister and comprise of representatives of relevant ministries and governmental agencies. The board includes representatives from Ministries of Finance, Commerce and Investment, Economy and Planning; the Central Bank of Saudi Arabia (SAMA); and the Capital Market Authority (CMA); and two experienced and knowledgeable persons appointed by the Ministerial Council based on the Board Chairman's recommendation. The

role of the board mainly revolves around decision making and supervision over the GAZT progress. Particularly, the board approves policies, strategic plans, internal regulations and structure, taxes treaties with international parties, annual budget, and financial reports. Also, the board may propose regulatory bills, amendments on current laws, appoint internal and external auditors, and accept gifts, donations, grants, Waqf or endowments in accordance with the relevant regulations (GAZT regulation, 2017)

The second new component in the GAZT organisational structure is establishing a Shariah committee which consists of five members who shall be experts in the fields of Islamic jurisprudence, zakat accounting, and law. The role of Shariah committee is to review proposed regulations and bill drafts, tackle issues related to the collection of zakat, conducting research on zakat and other tasks requested by the board (GAZT regulation, 2017).

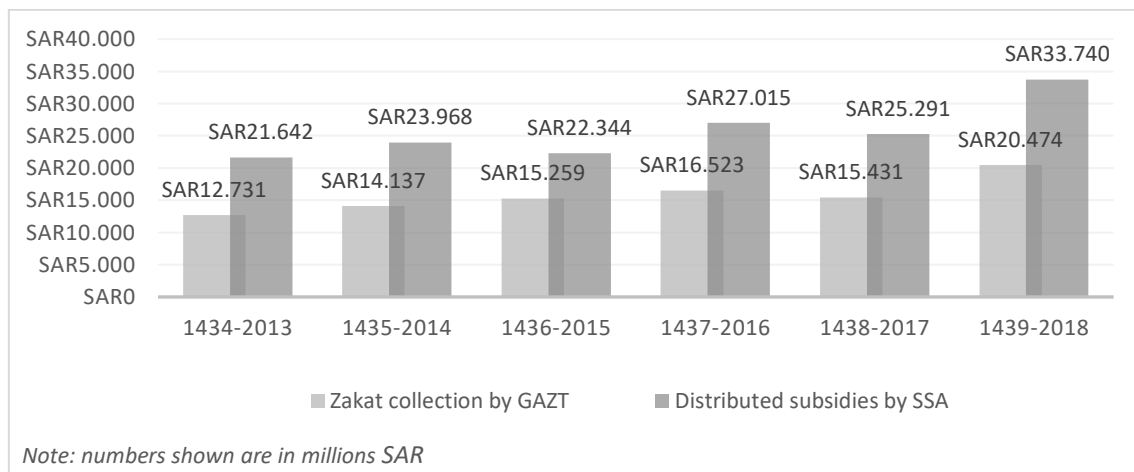


Figure 2. Comparison between Zakat Collection by GAZT and Distributed Welfare Subsidies by SSA

Sources: statistics were retrieved from GAZT.gov.sa & the annual report of SSA

Although the Saudi government has imposed mandatory zakat collection by formal zakat authority since 1951, the collected zakat by the GAZT is said to be insufficient. This low zakat proceed is partially due to the lack of zakat payers' compliance as reported by the GAZT (see figure 1). In addition, zakat revenues have been far from satisfying the needs of welfare recipients from Saudi families receiving funds from the Saudi Social Security Agency (see figure 2). Besides, the lack of relevant literature and the uniqueness of the legal system of zakat in Saudi Arabia emphasise the

need to explore issues affecting zakat payment compliance and how it is influenced by governance practices of zakat authority, which the main objective of this paper. The next section discusses the methodology used to gather the data for this study.

METHODOLOGY

This study has employed a qualitative approach to achieve its objectives. The lack of literature and the uniqueness of the legal system of zakat in Saudi Arabia

required a qualitative exploration of the issues about the governance practices of the GAZT. In addition, the analysis of the qualitative data was used to develop a framework that explains the influence of governance on zakat payers' compliance in the Saudi context.

Accordingly, the collection of data was done through in-depth interviews with experts selected based on the purposive sampling technique. This technique is widely used in qualitative research as the most efficient way to obtain information based on the participants' experience and knowledge (Creswell & Plano Clark, 2007). Moreover, expert sampling is useful when there is a lack of literature so that experts can provide practical ways to investigate new areas of research (Etikan, Musa, & Alkassim, 2016).

With regard to the sample size, the number of interviewees was

determined based on the attainment of saturation. The data saturation is achieved after ensuring that the obtained data can sufficiently explain the research phenomenon (Creswell & Plano Clark, 2007). Moreover, the selection of the interviewees was based on their availability and willingness to participate and communicate their experience and opinions. In addition, the diversity of experts' backgrounds was considered during the selection of the participants in order to obtain multiple perspectives regarding the investigated issues. Overall, the number of participants interviewed in this study was 21 experts. This sample size was believed to suffice the concept of saturation as the researcher felt there was no significant information that contributes to the discussion after the 18th interviews. Table 1 presents the participants' profile in the study.

Table 1. List of Participants' Profiles

| No. | Areas of Expertise | Affiliation | Experience |
|------|--|----------------|------------|
| Ex1 | Legal consultant, former head of Al-Riyadh branch | GAZT | 14 years |
| Ex2 | Legal consultant | GAZT | 13 years |
| Ex3 | Director-General of Senior zakat and taxpayers | GAZT | 17 years |
| Ex4 | Director-General of Assessment and Inspection Department | GAZT | 15 years |
| Ex5 | Academician, the chairman of Zakat Accounting Studies, a member of the GAZT objection committees | GAZT KAU | 14 years |
| Ex6 | Economist, a member of the GAZT objection committees | GAZT IRTI-IDB | 16 years |
| Ex7 | Academician, a researcher at the Zakat Accounting Studies Chair, a member of the GAZT objection committees | GAZT KAU | 18 years |
| Ex8 | Academician, zakat and tax accounting expert and trainer | IPA | 11 years |
| Ex9 | Academician, a researcher at Zakat Accounting Studies Chair | KAU | 18 years |
| Ex10 | Accountant, Researcher in zakat accounting | UQU | 8 years |
| Ex11 | Legal and shariah consultant, a researcher in zakat studies | IUM | 7 years |
| Ex12 | Deputy dean of the Islamic Economics Institute, a former lawyer and legal consultant | KAU | 12 years |
| Ex13 | Economic consultant, Islamic Economics expert | Business owner | 18 years |
| Ex14 | Academician, Islamic Economics researcher | IMBSU | 17 years |
| Ex15 | Academician, Islamic Economics researcher | KAU | 16 years |

| No. | Areas of Expertise | Affiliation | Experience |
|------|---|----------------|------------|
| Ex16 | Dean of The Islamic Economics Institute, Islamic Economics expert | KAU | 21 years |
| Ex17 | Islamic Economics Expert, Economic and Financial consultant | Business owner | 13 years |
| Ex18 | Academician, a researcher in zakat and waqf studies | IUM | 6 years |
| Ex19 | Islamic Economics researcher | Business owner | 8 years |
| Ex20 | Director of Zakat research Centre in Riyadh | ZCR | 5 years |
| Ex21 | Islamic Economics Expert, Lawyer and legal consultant | Business owner | 16 years |

The interview questions were developed based on the objectives of the study, which is to explore issues related to governance practices of the GAZT, and how to improve zakat payers' compliance through implementing good governance practices. Next, the interviews' questions were validated on their relevance, rigour, and clarity through a peer-review process. Following the questions' validation process, the researcher translated the developed questions into the Arabic language, which was reviewed by an expert in both English and Arabic languages. Accordingly, nine questions were developed which address the zakat gap in the Saudi context, the issues affecting zakat payment compliance, and how to improve zakat compliance through governance mechanisms. Subsequently, the analysis of the qualitative interviews followed the thematic analysis approach, which is a qualitative descriptive methodology for identifying patterns (themes) within data and reporting the findings (Braun & Clarke, 2006). The following sections discuss the findings of the data analysis.

ISSUES PERTAINING TO THE GOVERNANCE OF THE GAZT

The analysis of the interviews data suggested several issues pertaining to

GAZT governance that are believed to affect the level of zakat payment compliance. These issues can be grouped into four factors based on the following order:

1. The lack of control mechanisms that guarantee zakat payers' compliance.
2. The perceived image of the GAZT role in relation to zakat.
3. The lack of trust.
4. Issues affecting the perceived fairness of the GAZT.

The first factor concerns the lack of control mechanisms that guarantee zakat payers' compliance. It was suggested that this factor leads to increasing the numbers of zakat evasion cases committed by either individuals or agents of zakat accountants on behalf of their clients. For example, zakat evasion occurs in many forms, such as presenting false or altered business records and concealing business activities in order to reduce the amount of zakat due. In addition, the lack of control mechanisms is believed to allow some zakat payers not to follow up with the GAZT regarding the payment of their business. This lack of control could be attributed to the insufficient number of qualified zakat accountants working with the GAZT to examine zakat statements provided by zakat payers. Besides, the GAZT over-reliance on the discretionary assessment of zakat, particularly for

small and medium businesses, can have a negative impact on zakat payers' compliance. For example, the discretionary assessment method for calculating zakat is believed to allow some zakat payers to hide their business records in order to pay as minimum as possible of zakat to the GAZT.

Although this factor has received limited attention in the literature, there were few studies indicating its impact on zakat compliance in the Saudi context. For example, AlSaad, (2013) mentioned the lack of penalties and enforcement mechanisms as one of the causes for zakat evasion. Another recent study by Alosaimi (2018) has examined the influence of two related concepts, namely detection risk and penalty magnitude, on zakat compliance behaviours. While the relationship between the detection risk and zakat compliance intention showed an insignificant relationship, the penalty magnitude was found to have a significant and positive relationship. Hence, it was suggested that an increase in the perceived penalty magnitude could significantly increase zakat compliance intention. Alosaimi's (2018) justification to the result concerning the insignificant relationship between detection risk and zakat compliance intention was similar to the above discussion regarding the overuse of the discretionary assessment method by the GAZT staff. Such a method can reduce the effect of detection risk as zakat avoiders would be subject to it once the GAZT required them to pay zakat due.

The second factor concerns the perceived image of the GAZT in relation to zakat collection. Although there are various issues that could shape zakat payers' perception toward the GAZT, the concern is mostly triggered by its dual role in collecting both tax and zakat. Specifically, the GAZT is tasked with

collecting taxes from foreign commercial entities and the recently introduced Value Added Tax VAT, besides collecting zakat from Saudi business owners and companies. This dual role can have adverse effects on the perceived image of the GAZT by regarding it as a tax authority more than a zakat institution. Moreover, the limited role of the GAZT on the collection of zakat might reinforce such negative perceptions, which also does not reflect the traditional role of zakat institutions. Furthermore, it was mentioned that there were other factors that could contribute to reinforcing an unfavourable image, such as the lack of spirituality in the GAZT operations and collection process and the absence of shariah supervisory committees in its administrative structure. Hence, such negative perception is believed to adversely affect zakat payers' compliance with zakat rules and procedures imposed by the GAZT.

The third factor relates to the lack of trust, which could be attributed to several issues that trigger issues of trust, including the lack of transparency and disclosure about the management of zakat fund. In addition, several interviewees voiced similar concerns over the distribution process, which is done based on meeting certain criteria for registering eligible recipients by the SCA. These criteria may not apply to the conditions of eligibility for receiving zakat money according to shariah principles. However, the GAZT has no control over the distribution process due to the separation between the collection and distribution functions. Besides, the SSA source of funding is not limited to the collected zakat proceed as it is combined with additional fund allocated from the public revenue of the Saudi government.

Previous studies have mentioned the issue of trust in the GAZT context as one of the causes of zakat evasions (Al-Malafikh, 2014; AlSaad, 2013). Thus, this finding from the qualitative data analysis is in line with the previous studies' findings regarding the existence of the trust issue in the GAZT context. Moreover, the influence of trust on compliance behaviours has been documented in various areas of the literature, including tax compliance (Murphy, 2004), and policing and law-abiding behaviours (Braithwaite & Makkai, 1994). However, although few studies have examined the influence of trust on zakat compliance behaviours, no significant relationship has yet been found (Ahmad, Nor, & Daud, 2011).

The last factor discussed in the interviews concerns the perceived fairness of zakat assessment and collection procedures imposed by the GAZT. There are several issues that could cause disputes over the methods of assessing zakat due by the GAZT. Such issues can be attributed to the differences of juristic views regarding the calculation of zakat from certain assets, such as loans and assets under lease-purchase contracts. Moreover, the lack of flexibility in demanding the full payment of zakat due by the GAZT might discourage some zakat payers' from disclosing all assets subject to zakat assessment. For example, many zakat payers wishing to distribute their zakat directly on needy relatives or neighbours might resort to seeking ways that minimise their due zakat. Hence, the lack of flexibility could be related to the perceived fairness of the GAZT because the wishes and interests of zakat payers should be respected and protected, besides protecting the interest of zakat beneficiaries.

There has been limited literature that discusses issues related to

procedural fairness in the GAZT context. For example, AlSaad (2013) mentioned that the lack of clarity regarding the criteria used for zakat assessment by the GAZT contributes to zakat non-compliance issues. Similarly, Asiri & Yamani (2017) mentioned that the different assessment methodologies and calculation of zakat from certain assets were cited among the leading causes of disputes between zakat payers and the GAZT. Such issues can be linked to the perceived fairness of the process and procedures followed by the GAZT, which should be based on established rules that take zakat stakeholders' interest into accounts.

IMPROVING ZAKAT COMPLIANCE THROUGH GOOD GOVERNANCE (DEVELOPING A FRAMEWORK)

This section discusses the remaining questions that were asked in the interviews regarding how to improve zakat compliance through good governance. The themes discussed in the remaining questions were based on the review of the literature with probing questions that provide room for further discussions of factors and aspects that were not included in the main themes. At the end of the analysis, four themes were identified, namely: 1- the administration of zakat institution; 2- the performance of zakat institution; 3- the transparency and disclosure practice of zakat institutions; 4- the fairness of zakat regulations and procedures. Accordingly, a positive perception of the above-mentioned dimensions would likely boost zakat payers' confidence towards Zakat Authority and encourage greater compliance with zakat regulations. The following sub-sections provide further discussions of those four dimensions. Also, a summary of the

discussed themes and their related aspects are presented in figure (3) at the end of this section.

1. The Administration of Zakat Authority

The administration department is the backbone of any organisation which facilitates sound running of its operations. The role of the administration is seen as the most influential factor that shapes the organisational culture and dynamics. It also has a fundamental role in ensuring the alignment of the direction and the commitment to the values and vision that the organisation tries to accomplish (Drath et al., 2008). In this context, the administration of zakat institution refers to the board and the top-level management in charge of formulating policies, setting objectives, allocating resources and supervising the organisation's activities. Accordingly, zakat administration is responsible for building and maintaining a positive image which reflects their accountability to zakat stakeholders. Also, it has a significant role in enacting the organisational vision and ensuring the implementation of strategies to achieve zakat objectives. Therefore, this dimension has a crucial influence on zakat payment compliance by creating positive perception towards the credibility and competence of the zakat authority in managing zakat affairs.

The analysis of the interviews with zakat experts emphasised several aspects that are crucial to creating a positive perception towards the zakat administration. Those aspects include:

- a. Setting up a clear mission and objectives of the Zakat Authority: it is crucial that the organisational mission and objectives of Zakat Authority are well-known and respected by the public and zakat

payers. The organisational mission and objective should also be in-line with the Shariah objectives of zakat, established in the Islamic jurisprudence and the early institution of zakat.

- b. Appointing reputable and competent board members and top managers: the integrity and competence of the leaders of the zakat Authority are crucial to protect zakat fund from being abused or mismanaged. The board should consist of members with diverse skills and academic backgrounds, which enables them to recognise issues that the zakat authority encounters. It is also suggested that the board should include members representing the interest of zakat stakeholders, such as zakat payers and zakat recipients besides other relevant stakeholders.
- c. Ensuring sound shariah governance over the collection and distribution process: the existence of a shariah body or department that observe and supervise the management of zakat fund would likely reinforce zakat payers' confidence towards the zakat authority and encourage greater zakat compliance.
- d. Building the organisational capacity to manage the collection and distribution of zakat efficiently and effectively: The administration of zakat should demonstrate accountability by building the capacity to manage the collection and distribution of zakat fund.

2. The Performance of Zakat Authority

The second dimension that could influence zakat payment compliance concerns the performance of zakat

authority. However, assessing the performance of zakat institutions is different from the performance of the private and for-profit sector, which relies heavily on financial indicators. Evidently, the goals for performance measurement of zakat institutions is similar to charity organisations and the public service sector. According to Dunn and Mathew (2001), the performance assessment in charities aims to evaluate: 1- meeting the expectations and standers set by funders or donors; 2- providing satisfactory services to stakeholders; 3- enhancing staff performance through learning and development; 4- demonstrating the management accountability and transparency to stakeholders (as cited in Yang, Brennan, & Wilkinson, 2014). The performance dimension in this framework covers several aspects that were mentioned by the interviewees, which include the following:

- a. Improving the efficiency of zakat collection and distribution processes: The need to improve the efficiency of the collection and distribution of zakat is a continuous challenge. Issues affecting the perceived efficiency can have a significant impact on zakat payers' confidence towards zakat authority and discourages zakat compliance behaviours.
- b. Spreading zakat awareness and promoting zakat authority role in managing zakat: Effective communication between the administration of zakat and the public and zakat payers is crucial for the success of zakat institutions. Good communication with the public should increase zakat awareness and convey the management's commitment and competence in managing zakat affairs.
- c. Effective use of technology: The advantages of adopting technology and online system for zakat collection in the GAZT context are evident. It can be observed that the use of technology has significantly facilitated the efficiency of the collection process. The current IT system of the GAZT allows zakat payers to submit their business statements and view zakat assessment, then pay it online rather than following up with the nearest branch. This easy and convenient process has brought a positive impact on zakat proceeds collected by the GAZT as it facilitates the zakat collection process. In addition, this online system serves as a guarantee mechanism for ensuring the compliance of zakat payers with zakat rules by linking other governmental services, so that zakat avoiders may not receive other services unless they pay their zakat dues.
- d. Enhancing the skills and knowledge of zakat staff: The quality of zakat staff can shape the perception of zakat payers regarding how they are being treated and served and the level of knowledge and skills of zakat assessors in performing their jobs. Therefore, it is of prime importance that the zakat administration pays primary attention to recruiting zakat staff and equip them with the skills and training needed for the job.
- e. Providing good service quality and care for zakat stakeholders: The quality of services that zakat payers receive when dealing with zakat authority can also influence zakat compliance. It is suggested that zakat authority could employ

the use of indicators that evaluate zakat payers' satisfaction with the services provided and make improvements accordingly.

3. *The Transparency and Disclosure of Zakat Authority*

The third dimension generated from the interviews' analysis relates to transparency and disclosure practices of the zakat authority. Accordingly, the transparency and disclosure of zakat institutions are likely the most crucial factor that significantly influences the trust and compliance of zakat payers. A high level of transparency and disclosure is believed to encourage the social and ethical incentives of zakat payers to pay their zakat to a particular zakat institution. Although transparency and disclosure of information are two different concepts, they are necessarily connected and reflected on the outcome of each other. Specifically, disclosure of information is the primary tool that regulators ensure the transparency of corporates' managements to stakeholders and investors who, then, could make informed decisions.

In the current context, the public and zakat payers perceive the level of transparency of zakat institutions through their disclosure practices. Thus, the discussion of this dimension highlighted several aspects related to transparency and disclosure, that are believed to be significant to gain the trust and compliance of zakat payers. Those aspects can be summarised as follows:

- a. Identifying the rights and responsibilities of zakat stakeholders within zakat laws and regulations: The clarity of zakat laws and regulations are crucial for zakat stakeholders to understand their rights and responsibilities and obey the law. For example, zakat laws must identify the rules

followed during zakat assessment, including all assets subject to zakat assessment, and exempted assets and expenses. Such clarity of zakat laws should be fair and well-established from zakat jurisprudence in order to be respected and followed by zakat payers.

- b. Following a transparent process in the collection and distribution of zakat: The transparency of zakat collection and distribution process provides assurance to zakat stakeholders regarding the proper handling of zakat fund until its delivery to the rightful beneficiaries, whose well-being and dignities are preserved through zakat. A transparent process should define the role of zakat institution as an intermediary between zakat payers and zakat beneficiaries, which is achieved by the disclosure of sufficient information.
- c. The transparency of the administration's financial resources and budget: Running the management of zakat institutions requires considerable resources which accommodates the operations' expenses and the salaries of the managers and employees. It is established that zakat workers are allowed to have their share from zakat proceed according to the Quranic verse stipulating the beneficiaries of zakat (At-Taubah, 60), which indicates that zakat management's expenses can also be covered from the collected zakat. Thus, zakat administrations should be transparent in disclosing their share from zakat and their sources of funding. The transparency should reveal the remunerations

and salaries of zakat administrators and staff, which demonstrate their accountability to the public.

- d. Providing periodic disclosure of the collected and distributed zakat: Disclosure of information is an effective way for zakat institutions to demonstrate the transparency and accountability of the management to zakat stakeholders and the public. Thus, zakat authority should provide sufficient information on the collected zakat fund, including statistics on zakat sources, whether from companies or individuals, industry types and region. Also, the details of the distributed zakat should include the impact on society and zakat recipients. Such information is crucial to show the socio-economic role of zakat to the public, which provides incentives for zakat payers to comply with zakat laws and rules.
- e. Publishing audited periodic reports on zakat authority's activities: Zakat authority should avail to the public periodic reports and publications that show their activities and provide detailed information about the management of zakat. In addition, the annual report should be verified by internal and external auditors in order to reinforce good governance practices within the zakat authority.

4. Fairness of the Regulations and Procedures Followed by Zakat Authority

The fairness of zakat regulations and administrative procedures is crucial for acquiring the trust of zakat payers and encouraging compliance with zakat regulations. The discussion of this

dimension with the interviewees emphasised several aspects that related to zakat assessment, collection and distribution procedures, which can be summarised as follow:

- a. Following fair Zakat assessment and collection procedures: The perceived fairness of the assessment and collection procedures can be a significant determinant for zakat payers' compliance. The variations of juristic views regarding the methodologies of zakat assessment present a challenge to zakat authority in implementing a methodology that is fair to zakat stakeholders. Finding such methodology requires engaging zakat stakeholders and shariah experts to agree on the appropriate rules followed in the assessment and collection of zakat in accordance with shariah principles.
- b. Providing fair mechanisms that ensure zakat payers' compliance: It is established in zakat literature that the public authority can mandate the payment of zakat from wealth owners. Accordingly, ensuring zakat payers' compliance requires that the zakat authority might use penalties and sanctions on those who refuse to pay zakat. However, the procedures for enforcing the collection of zakat must be fair and effective which provide incentives for compliant zakat payers in one hand, and the use of power and penalties on the other hand.
- c. Following a fair zakat distribution process: fairness should be applied when delivering zakat proceeds to the rightful recipients by protecting zakat fund from being

misappropriated or abused during the distribution of zakat.

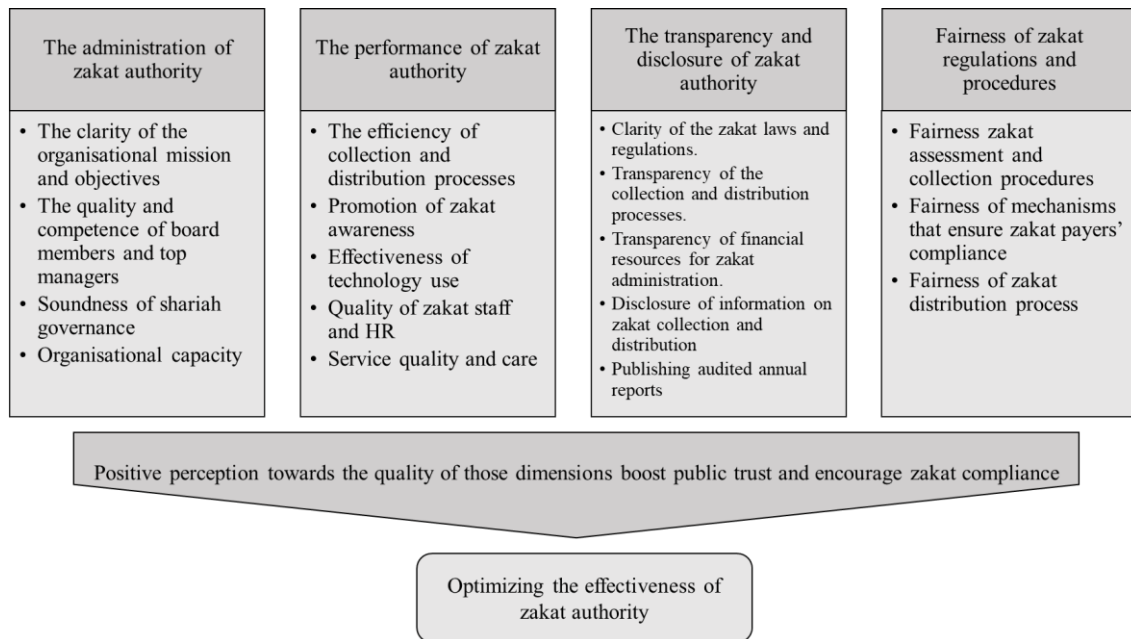


Figure 3. A summary of the Developed Framework for Improving Zakat Compliance

Source: Prepared by Author

CONCLUSION

Saudi Arabia has a long history of implementing zakat through formal bodies that manage the collection and distribution of zakat. Yet, there has been limited literature that addresses the Saudi zakat system and the issues and challenges that could limit achieving its optimum potential. Thus, this study intended to fill this gap by employing qualitative interviews of 21 experts with a high level of knowledge and experience on the issues addressed in this study. The interviews' data were analysed to identify major issues pertaining to the governance of zakat authority in Saudi Arabia. In addition, this paper has developed a framework to improve zakat compliance by implementing good governance practices.

Accordingly, the issues raised by the interviewed experts can be grouped into four factors. The first factor related to the lack of legal mechanisms that guarantee zakat payers' compliance or the limitations of zakat regulations to enforce zakat collection from non-compliant business owners. The second factor related to the perceived image of the GAZT as a zakat institution, which is largely affected by its dual role in collecting both zakat and taxes. The third factor related to the lack of trust, which could be attributed to several issues. Such issues include concerns over the followed distribution procedure and the absence of shariah supervision over the collection and distribution processes. The fourth factor concerns the perceived fairness of zakat assessment and collection procedure followed by the GAZT. This factor includes issues affecting the perceived fairness, such as

calculating zakat from certain assets that are disputed among shariah scholars, e.g. loans and leased-purchased assets. Subsequently, the second part of this paper discussed the development of a framework that explains how to improve zakat compliance through good governance practices. The developed framework includes four dimensions that were derived from the literature and the analysis of interviews' data.

In conclusion, this paper provides an in-depth investigation into governance-related issues and governance-compliance relationship in the case of the Saudi zakat authority, GAZT. Although the scope was limited to the Saudi context, the findings should provide interesting insights to policymakers and zakat administrators on how to improve zakat payment compliance through good governance practices. Future studies are encouraged to empirically examine the generalizability of the developed framework on actual zakat payers. Finally, improving zakat compliance and good governance of zakat institutions are the two essential components for optimising the effectiveness of zakat and achieving its objectives within Muslim communities.

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