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ZAKAT WAKALAH DISTRIBUTION EFFECTIVENESS: INSIGHTS FROM ACCOUNTABILITY AND SOCIAL PERFORMANCE MEASUREMENT IN THE NON-PROFIT SECTOR

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Abstract:

Zakat has long been recognised as an essential instrument for socio-economic development in Muslim societies. In Malaysia, the practice of *zakat wakalah,* where zakat payers are authorised to distribute a portion of their zakat directly, has become an important mechanism to support social initiatives. Despite this, zakat institutions continue to face persistent criticisms related to transparency, efficiency, and accountability. While non-profit organisations have adopted performance measurement frameworks to evaluate their social outcomes and impacts, zakat institutions have yet to establish a structured approach to assess and communicate their social performance. This study addresses this gap by critically reviewing the literature on accountability, performance measurement, and Islamic social finance, with the aim of developing a conceptual framework for measuring the social performance of *zakat wakalah* distribution. The paper contributes theoretically by extending the application of performance measurement frameworks into the Islamic social finance context, and practically by providing zakat institutions with a foundation to enhance accountability, transparency, and stakeholder trust.

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Keywords:

Social Performance Measurement; Accountability; Zakat *Wakalah*, Non-Profit Organizations

Introduction

Zakat is one of the Islamic social finance instruments and important financial resources for Islamic countries. It contributes to social security and harmony to help bridge the gap between the rich and the poor. The crucial role of zakat institutions can be seen during COVID-19 pandemic where these institutions are accountable to responds to the needs of the most vulnerable and marginalized people in communities. While the Malaysian government has provided a substantial amount of stimulus package to the affected business and communities, the reduction in government resources has led to the urgent calls for zakat institutions to contribute to the concerted effort in fighting the socio-economic impact of the pandemic. To cushion the impact of a pandemic, zakat has been distributed in various sectors such as healthcare, education, community upliftment, and microenterprise empowerment. According to a statistical report by Department of Awqaf, Zakat and Hajj (JAWHAR), it was reported that RM1.19 billion has been distributed by Lembaga Zakat Selangor (LZS) in year 2024. Similarly, Majlis Agama Islam Wilayah Persekutuan (MAIWP) has distributed RM1.16 billion in year 2024 which indicate an increase of 13.5% from total zakat distribution in year 2023.

The zakat *wakalah* mechanism employed by certain zakat agencies in Malaysia is regarded as an innovative strategy to enhance the effective distribution of zakat to beneficiaries. Zakat institutions utilise zakat *wakalah* to appointed zakat payers (*muzakki*), including people, corporations, employers, and higher education institutions, for the execution of zakat distributions (Osmera et al., 2021; Shaiffe & Hassan, 2021; Zainie et al., 2022). Implementing zakat *wakalah* can expand the reach and locations of zakat distribution (Osmera et al., 2021), thereby effectively addressing poverty eradication and facilitating wealth redistribution to the impoverished (Amin, 2024). The *wakalah* system enables zakat payers to directly distribute zakat to the destitute and impoverished, thus enhancing the Islamic socio-economy and benefiting all parties concerned (Nor Paizin & Abd Rahim, 2021a). Simultaneously, zakat contributors experience fulfilment when engaging directly with zakat beneficiaries and observing the effects of their contributions (Samir & Fadili, 2019). In the absence of the *wakalah* system, they can only evaluate their zakat contributions and the utilisation of zakat through the annual reports of zakat institutions.

Notwithstanding the substantial sums allocated to zakat beneficiaries (*asnaf*), zakat institutions have persistently faced criticism and public scrutiny about their efficiency and effectiveness in handling zakat operations. Public complaints indicate that zakat has not reached the intended beneficiaries due to insufficient publicity by the zakat authorities or a lack of awareness within the community (Ab Aziz & Mohd Anim, 2020; Erlane et al., 2018; Rahman et al., 2012; Taha et al., 2017). As a public entity with a social mandate, zakat institutions must demonstrate accountability to stakeholders. In February 2023, the Malaysian Anti-Corruption Commission (MACC) issued a statement concerning the ongoing investigation into allegations of misappropriation and embezzlement of zakat funds linked to the Negeri Sembilan Islamic Religious Council in 2019, stemming from corruption and abuse of power (New Straits Times, 2023). A comparable incident was reported in May 2017 involving the Pulau Pinang Islamic Religious Council, where five Penang zakat officers were probed for alleged theft of zakat funds in the state (Bernama, 2017). All these cases highlight the importance of transparency in discharging the accountability in managing zakat fund.

Despite the growing importance of zakat institutions, they have not yet achieved the fullest potential in exerting their accountability to stakeholders. The unrealised potentials and lack of trusts towards Islamic social finance institutions including those of zakat institutions, are due to the limited disclosure on how these institutions measure and report their social impact and values (Mahadi et al., 2019; Syed Azman & Engku Ali, 2019). Furthermore, the transparency of zakat information may mitigate public misconceptions on the administration of zakat institutions (Samargandi et al., 2018). Zakat information may bolster trust among zakat contributors and demonstrate the efficacy and governance of zakat organisations (Abd Wahab & Abdul Rahman, 2011). The deficiency of confidence in the governance of zakat institutions, attributed to a perceived inefficiency and ineffectiveness, may directly hinder these institutions from achieving their intended socio-economic objectives. To motivate zakat payers to consistently pay zakat to zakat institutions, it is essential to provide them with pertinent information regarding the distribution of zakat to beneficiaries and its impact on community welfare. Given the identical functions of zakat institutions to those of non-profit organisations (NPOs), there is compelling evidence that these entities require a performance measurement system to evaluate the impact of the substantial funds and resources allocated to their social initiatives. This is considering the significant pressure on NPOs to exhibit effective governance and proficient management of social funds, a thorough measurement of social performance is crucial for fulfilling accountability, thereby ensuring ongoing funding and the sustainability of their operations (Arvidson & Lyon, 2014; Ógáin et al., 2012). Stakeholders, particularly the donors of NPOs, may question the efficiency of social fund utilisation in achieving the NPOs' social missions, relying on performance metrics such as outputs, outcomes, and impacts (Cordery & Sinclair, 2013).

Nonetheless, there is an absence of suitable performance measurements for zakat institutions to evaluate their social impact and public value. Evaluating performance in zakat institutions may foster organisational sustainability and value generation, in addition to bolstering public confidence (Mohd Noor et al., 2015). Performance measurement is crucial in assessing the effectiveness of zakat institutions in addressing social issues and aiding the underprivileged. Consequently, performance measurement for zakat institutions is an essential instrument that enables these organisations to successfully report the information required by stakeholders. The absence of accurate information regarding the output, outcome, and impact of zakat distribution will undermine stakeholder trust in zakat institutions and may dissuade zakat payers from contributing to authorised entities, as they may perceive potential mismanagement of zakat funds. However, there is limited studies have been undertaken to examining the zakat institution's accountability through performance measurement approach. On the other hand, various performance measurement approaches have been proposed and implemented for NPOs to discharge their accountability to stakeholders in managing the social fund.

The objective of this study is to enhance the literature on the social performance measurement of zakat institutions by presenting a framework for measuring the social performance of zakat *wakalah* distribution. This study examines literature on accountability and social performance evaluation within the social sector, including NPOs, which share a comparable social mission to zakat institutions. The framework may aid zakat institutions in fulfilling their accountability towards output and outcome reporting of their zakat *wakalah* distribution.

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Literature Review

Zakat Wakalah in Malaysia

In Malaysia, the administration of zakat falls under the jurisdiction of the states, except in Kuala Lumpur and Labuan, where the zakat law and administration are governed by the federal government. There are a total of 14 zakat institutions in Malaysia that operate zakat matters respectively. Some of the states have corporatized their zakat institutions and for some of them, zakat is directly managed by State Islamic Religious Councils (SIRCs). Zakat *wakalah* was first introduced in Malaysia by Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan MAIWP in 2011. Consequently, it is followed by other zakat institutions in each state in Malaysia, including Perlis, Kedah, Selangor, Kelantan, Negeri Sembilan, Terengganu, Perak, Pahang, Johor, Pulau Pinang, and Melaka, to strengthen zakat distribution and improve the well-being of *asnaf.* However, The zakat *wakalah* has not been implemented in Sabah and Sarawak due to local preferences and the administrative capacity to prioritise direct zakat distribution via SIRCs, which they consider more effective (Amin, 2024).

Wakalah is one of the contracts in Islamic law and plays an important role in Islamic financial system. *Wakalah* is related to concept of agency or authoritative representation. *Al-Wakalah* is built on the root word *wakala* which has several meanings including agency, representation, proxy, mandate, authorization, delegation and empowerment (Mohd Amin & Abdul Hamid, 2014). The *wakalah* concept is used to indicate a representation of a person on behalf of another person in certain dispositions (Annuar et al., 2004). *Wakalah* is also a contract of agency where a person delegates his right or business to a second party to act as his representative in a financial transaction (Htay & Salman, 2013). Here, *wakalah* means performing tasks on behalf of others, delegation of a task or job to another, and it refers to the agency concept (Hamid et al., 2020) . *Wakalah* is also refers to authorization of the agent to act on behalf of the principal, with or without fee (Mohd Amin & Abdul Hamid, 2014; Nor Paizin & Sarif, 2021b). The contract of agency is legally approved and practiced on several evidences from the al-Qur'an:

> *"Now, send one of you with your money to the town. Let him found out which is the best food (to be had) and bring some to you, that (you may) satisfy your hunger therewith: and let him behave with care and courtesy, not inform any one about you"*
>
> *(al-Kahfi: 19)*

Wakalah is a broad concept which has been widen in the area of zakat and investment system of Islamic banking institutions. In the zakat management practices, *wakalah* is a policy of returning a portion of zakat paid to the zakat institutions to entities that pay zakat for distribution to qualified *asnaf* (Shaiffe & Hassan, 2019). The purpose of zakat *wakalah* is to increase the zakat collection consists of 4 segments such as individual, higher learning institutions, company and employer and as a zakat payer, which consequently they get the opportunity to distribute their zakat to the poor and needy according to the terms and conditions (Ahmad & Wahid, 2017). In the practice of zakat *wakalah* in PPZ-MAIWP, the *wakalah* system is refers as the process by which MAIWP delegate authority to the zakat payer for the zakat money to be handed over directly to the eligible *asnaf* via a sum of zakat money paid in accordance with the established conditions (Nor Paizin & Sarif, 2021a). Table 1 provides the summary of the rate, terms and targeted asnaf for zakat *wakalah* distribution in PPZ-MAIWP.

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Table 1 : Rate, Terms and and Targeted Asnaf for Zakat *Wakalah* Distribution in PPZ- MAIWP

Category	Rate of zakat refund	Terms	Targeted asnaf
Individual	2/8 (25%) 3/8 (37.5%)	Zakat payment of RM25,000 to RM99,999.99 Zakat payment of RM100,000 to RM999,999.99	Needy and Poor
Company/ organization	3/8 (37.5%) 4/8 (50%)	Zakat payment RM100,000 to RM999,999.99 Zakat payment of RM1,000,000 and above	Needy, Poor and Fisabilillah
Higher Learning Institution	3/8 (37.5%)	No minimum limit of zakat payment	Needy, Poor and Fisabilillah
Employer	1/8 (12.5%)	Zakat payment of RM100,000 and above	Needy

Source: Ahmad & Wahid, (2017)

Starting from the zakat *wakalah* implementation in 2011, it has received a good support from different groups of zakat payers. According to Md Ariff (2021), in the year 2020, zakat *wakalah* recorded 1,712 applications, reflecting an increase of 2,851.72% over a 10-year period, while the total disbursement amounted to RM47.59 million, representing an increase of 1,941.32%. There are few advantages of zakat *wakalah* as documented by Amin (2024). Initially, it enables zakat institutions that are unable to directly distribute zakat to fulfil their commitment to provide zakat to zakat beneficiaries. Secondly, it can serve as a more efficient method for distributing zakat, since the wakil may possess greater experience and resources to identify eligible recipients and guarantee that the zakat is allocated equitably and effectively. Third, zakat *wakalah* facilitates the aggregation of zakat contributions from numerous persons and their subsequent distribution in a systematic manner, potentially yielding a more significant impact than if each individual were to allocate their zakat independently.

Zakat *wakalah* has a huge potential to become a sustainable source of financing the social initiatives to provide social welfare in the society (Shahrul Nizar & Mohamad, 2024). Despite the potential of zakat *wakalah,* it has not been widely adopted by zakat payers as application of zakat *wakalah* is only voluntary basis, thus providing more room for zakat distribution improvement ((Nor Paizin & Sarif, 2021; Osmera et al., 2021). This study addresses the research gap by proposing the need for social performance measurement to measure the effectiveness of zakat *wakalah* distribution in order to enhance the zakat institutions' accountability towards their stakeholders. The expectation of transparency and accountability becomes more pertinent for zakat *wakalah* to ensure that the wakil appointed by zakat institutions could distribute zakat to the right beneficiaries in the most effective ways.

Accountability from Islamic Perspective

Accountability from an Islamic perspective differs from a Western perspective because, in Islam, accountability lies on the foundation that underpins the relationship between humans and Allah s.w.t as the Creator; and the relationship with other mankind (Gambling & Karim, 1986; Haniffa & Hudaib, 2002; Lewis, 2001). Hence, accountability in Islam is classified as

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threefold relationships; within oneself, between oneself and God, as well as with the society, whereby man's relationship with the society reflects man's relationship with God (Yasmin et al., 2018). According to Masruki et al. (2018), institutions which was established to provide welfare in religious setting has led to the importance of discharging accountability. The Islamic perspective of accountability arises from the concept of *Amanah* (trust), which then relates to the concept of *khilafah* (vicegerent) (Noordin et al., 2017). In an Islamic economic system, accountability signifies that financial resources are to be viewed as a trust, which individuals, as khalifah, must uphold. This necessitates an effective performance measurement system that serves as a foundation for fulfilling accountability and enhancing management and internal control activities. The accountability is mentioned in the al-Qur'an:

> *"To Allah belongs all that is in the heavens and all that is on the earth, and whether you disclose what is in your ownselves or conceal it, Allah will call you to account for it. Then He forgives whom He wills and punishes whom hewills. And Allah is able to do all things"*
>
> *(Al Baqarah: 284)*

In the realm of zakat fund management, the accountability dynamics among the zakat institution (which administers the zakat fund), zakat payers, and recipients are distinctive and essential, as each party is ultimately answerable to Allah (Saad et al., 2014). Consequently, zakat institutions must fulfil their accountability to the needs of the people and their zakat stakeholders, eventually preserving their obligations to Allah The Almighty, while adhering to the principles aligned with the *Maqasid Shari'ah* (Sawandi et al., 2019). To ensure accountability to the public and institutional stakeholders, organisations must maintain complete transparency by making processes, institutions, and information accessible and adequate for relevant parties, particularly stakeholders, for monitoring purposes (Abd Wahab & Abdul Rahman, 2011). In view that zakat institutions operate like NPOs which within parameters of trust and integrity, accountability observance is not an option. The issue of accountability is particularly important for faith-based organizations as the donated funds and use of those funds is often meant to fulfill religious obligations for the well-being of the society (Yasmin et al., 2014).

Accountability in Social Sector

Demands for more accountability have proliferated within the social sector. Like other sectors, NPOs must address competing accountability expectations (Ebrahim, 2003) and therefore, are obligated to demonstrate accountability to stakeholders (Connolly & Hyndman, 2013). Accountability is intrinsically linked to organisations pursuing legitimacy. In the social sector, NPOs pursue legitimacy and are accountable to three stakeholder groups: those who provide funding and resources or oversee their activities, beneficiary and user groups, and government, businesses, and other organisations whose activities and practices they aim to influence (Dhanani & Connolly, 2012). In the social sector, stakeholders continually demand transparency about the management and allocation of funds by NPOs. Nonetheless, the entitlements of stakeholders about their demands are sometimes disregarded (Yang et al., 2017; Yang & Northcott, 2019). This situation has led to the withdrawal of stakeholder participation in NPO's activities, especially following the revelation of an NPO's financial misappropriation.

In relation to accountability in the social sector, Edwards & Hulme, (1996) categorise accountability in social sector into two types: downward accountability and upward accountability. Downward responsibility refers to the obligation of NPOs to be answerable to their partners, beneficiaries, workers, and supporters. Conversely, upward accountability

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pertains to the obligation of non-profit organisations to their trustees, funders, contributors, and governmental entities. Downward accountability pertains to the beneficiaries of services or the recipients of those services. For these stakeholders, cultivating trust relationships between non-profit organisations and the public is essential (Yang & Northcott, 2019). Due to the substantial financial resources designated for the social initiatives of non-profit organisations, funders are more motivated to evaluate the efficiency and effectiveness of their resource allocation, as they are accountable to their donors and taxpayers (Agyemang et al., 2017). Funders seek to ensure that their financial investments yield the desired outcomes. The growing reliance of NPOs on government and commercial entities has intensified the need to prioritise upward responsibility to donors (Agyemang et al., 2017; O'Dwyer & Unerman, 2007). Hence, funders necessitate information demonstrating compliance with contractual obligations, securing money, and adhering to regulatory standards within the framework of upward responsibility (Leroux & Wright, 2010; MacIndoe & Barman, 2013).

Ebrahim (2003) categorises the accountability methods employed by NPOs in practice; reports and disclosure statements, performance assessment and evaluations, participation, self-regulation, and social audits. Stakeholders assess accountability requirements by providing information that satisfies their needs (Connolly & Hyndman, 2013; Yang et al., 2017) and through transparent reporting (Hyndman & Mcconville, 2018)). In the Western context, accountability is intricately linked to stakeholder theory and legitimacy theory. According to stakeholder theory, organisations are obligated to treat all stakeholders fairly and ethically, advocating for authentic stakeholder democracy and engagement (Dhanani & Connolly, 2012). Legitimacy theory pertains to the enduring life and prosperity of organisations, which endeavour to garner constituent support to safeguard their self-interests (Dhanani & Connolly, 2012). In line with the aim to gain legitimacy and support, accountability is fulfilled by conventional financial accounts presented to external stakeholders, primarily demonstrating that funds have not been misappropriated (Connolly & Hyndman, 2013). NPOs' stakeholders comprise major funders, individual donations, recipients, government entities, regulators, the general populace, charity personnel, and sector interest organisations (Hyndman & Mcconville, 2018).

Moreover, governmental entities and substantial financiers, including charitable organisations and the corporate sector, exert significant impact on the accountability reporting methods of non-profit organisations due to their frequent direct interactions with the entities they support (Yang et al., 2017). Consequently, NPOs must maintain transparency on their social activities, and the measuring of outcomes is becoming increasingly vital, as this information is essential for securing ongoing support from stakeholders, particularly funding sources (Chu & Luke, 2023). The selection of performance measurement in the social sector is increasingly concerning, as the operations of non-profit organisations are becoming more sophisticated and complex, accompanied by greater contributions (Ógáin et al., 2012) without sufficient knowledge and experience to implement comprehensive performance measurement (Arvidson & Lyon, 2014).

Performance Measurement Framework in Social Sector

Performance measurement is a process where the performance information of an individual, group, organisation, system or component is collected, analysed and/or reported (Behn, 2003). Behn (2003) outlined eight purposes of performance measurement; to evaluate, to control, to budget, to motivate, to promote, to celebrate, to learn and to improve. Table 2 provides the meanings of each of the purposes of performance measurement. Neely et al., (2001) stated that

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performance measurement enables quantifying the efficiency and effectiveness of the activities undertaken within an organisation. Efficiency can be defined as the relationship between an organisation's inputs and outputs (Cordery & Sinclair, 2013). Whereas effectiveness is defined as the ability to achieve goals and implement strategies while using resources in a socially responsible way (Bagnoli & Megali, 2011).

Table 2 : Eight Purposes for Measuring Performance

Purposes	Questions that the Performance Measure Can Help to Answer
Evaluate	How well is my organisation performing?
Control	How can I ensure that my subordinates are doing the right thing?
Budget	On what programs, people, or projects should my organisation spend the public's money?
Motivate	How can I motivate line staff, middle managers, nonprofit and for-profit collaborators, stakeholders, and citizens to do the things necessary to improve performance?
Promote	How can I convince political superiors, legislators, stakeholders, journalists, and citizens that my organisation is doing a good job?
Celebrate	What accomplishments are worthy of the important organisational ritual of celebrating success?
Learn	Why is what working or not working?
Improve	What exactly should who do differently to improve performance?

Source: Behn (2003)

Recent years have witnessed a heightened interest in the measurement of social performance and social impact assessment within the social sectors. The heightened demand from governmental and philanthropic financiers, clients, and the public for non-profit organisations to demonstrate their impact on complex societal issues has elevated the significance of organisational performance in non-profit research (Liket & Maas, 2015; Molecke & Pinkse, 2017; Sowa et al., 2004). Funders and donors are pursuing highly competitive and high-performing non-profit organisations, particularly in the current uncertain economic climate, to guarantee that the limited resources allocated are employed properly (Cordery & Sinclair, 2013). To assess the effectiveness of NPOs, funders necessitate that these organisations quantify their performance as a means of accountability to resource sources, including people, governmental entities, and institutional funders. Consequently, performance measurement has gained paramount significance in funders' decision-making processes due to the heightened need for accountability in non-profit funding and intensified competition for resources (Huang & Hooper, 2011; Moxham, 2014). Increased confidence from resource providers in this area will incentivise donors to increase their contributions.

Assessing the performance of NPOS is considered challenging due to their distinctive financial and legal status, along with their social value aims. NPOS are anticipated to utilise their funds cautiously and responsibly while exhibiting superior performance, as they operate within a resource-constrained environment and must adhere to the expectations of resource suppliers (Lee, 2021). Consequently, the demand to exhibit impact is likely to escalate during economic crises, as public and private resources dwindle and competition for resources intensifies (Ebrahim & Rangan, 2010). They additionally stated that funders strive to ascertain whether their financial contributions are being utilised efficiently or whether they may be allocated more effectively elsewhere, alongside dedicated nonprofit organisation leaders and social entrepreneurs pursuing solutions to pressing societal challenges.

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The objective of fulfilling a social mission prompts an inquiry into the assessment of the influence these organisations have on society, in order to ascertain whether and how they are genuinely achieving their goals and enhancing societal well-being (Grieco et al., 2014). Furthermore, evaluating social effect can enhance internal management practices and facilitate funding acquisition. Nevertheless, the Organisation for Economic Cooperation and Development (OECD) in 2018 emphasised that evaluating social effect is challenging, particularly due to the complexities in developing qualitative and quantitative measures for reporting to stakeholders. This has led to the development of many models designed to offer principles and metrics for evaluating social effect. Organisations should choose the impact assessment approach that aligns with their mission, objectives, scale, and types of activities undertaken. Consequently, social performance in non-profit organisations (NPOs) has been examined in several contexts, primarily emphasising the purposes and methodologies by which NPOs allocate their available funds (Connolly & Hyndman, 2013; Yang & Northcott, 2019). Hence, the objectives and endeavours undertaken by an organisation, along with the tangible outputs, outcomes, and impacts realised in relation to those objectives, must be evaluated and quantified (Chu & Luke, 2023; Saxton & Guo, 2011).

Diverse methodologies for social performance have been established for the social sector. Prior research, including Hyndman and McConville (2016) and Epstein and McFarlan (2011) indicated that the measurement framework of charities was predominantly disconnected from their mission or mission-related objectives. One of the frameworks for social performance measurement is based on the logic chain model or impact value chain model which has first been developed by (Clark et al., 2004) as illustrated in Figure 1.

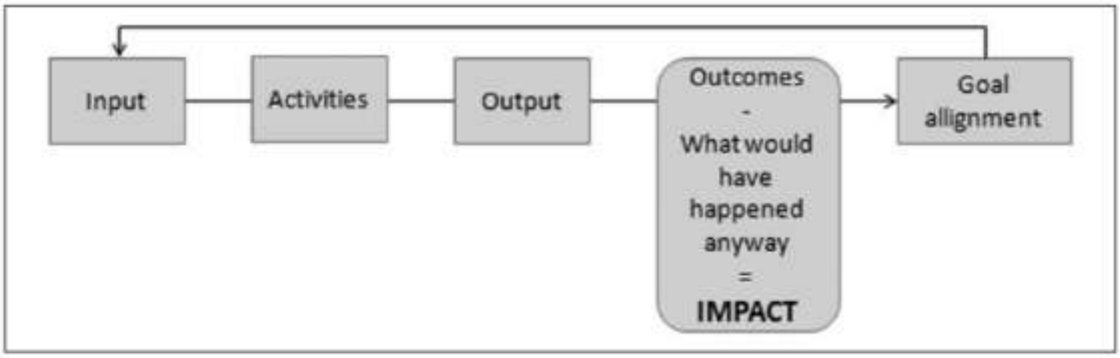

Figure 1: Logic Chain Model

Source: Clark et al., (2004)

The logic framework able to align the mission of the organizations with the outcome and impact expected from the activities delivered by NPOs (Ebrahim & Rangan, 2014). This framework focusing on the alignment of an organization's input and output to ensure program alignment and to evaluate the results. The results generally can be classified into output (immediate results), outcome (medium-term results) and impact (long term results) (Grieco et al., 2014). The framework offers the optimal structure and methodology for performance measurement to assess efficiency and effectiveness. While efficiency emphasises input and output, effectiveness examines how input might be transformed into output, outcome, and impact. Efficiency examines the economic or resourceful utilisation of inputs (e.g., time, capital, labour) to generate outputs (e.g., activities, services, or items provided). Effectiveness assesses whether the outputs achieve the intended results and ultimately enhance the program's

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influence. Table 3 provides an example on the evaluation of the effectiveness of the programs using logic chain framework.

Table 3 : Example on the Program's Evaluation

Inputs	**Activities**	**Outputs Immediate**	**Outcomes Medium term (1-3 years)**	**Impacts Long-term (3 – 10 years)**
Funds	Basic needs delivery	People fed or treated	Improve quality of life, health,	Sustained drop in poverty
Equipment and supplies	Service delivery such as training	People trained or educated	Improve education level	Increased literacy rate
Knowledge and technical expertise	Infrastructure construction (transportation)	Road built and goods transported	Increased incomes (measured for individuals)	Improvement in human developments (measured in terms of communities, populations or ecosystems)

Source: Ebrahim & Rangan (2014)

Methodology

This study conducts a comprehensive critical evaluation of the literature, encompassing journal articles, books, online sources, and seminar sessions. A literature analysis enables researchers to establish a robust foundation for the study by examining the concepts of accountability, social performance, and social impact measurement in NPOs. This article aims to provide a comprehensive and critical analysis of accountability and performance measurement in zakat institutions, utilising insights from literature on NPOs to identify areas in current practices that require improvement. Social performance measurement, as a nascent field, is proposed to evaluate the social impact of zakat *wakalah*, hence enhancing the accountability of zakat institutions in their management of zakat *wakalah* for stakeholders. Figure 2 provides a conceptual development of proposed social performance measurement for zakat *wakalah* distribution.

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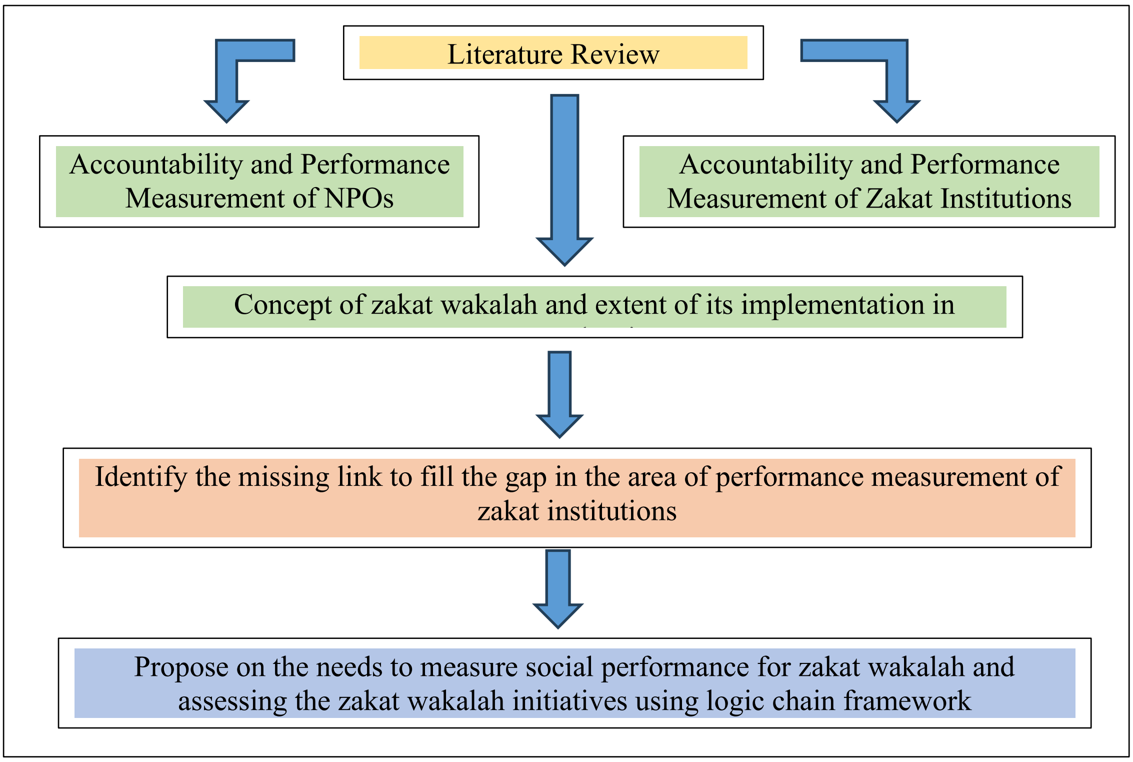

Figure 2 : Conceptual Development of Proposed Social Performance Measurement for Zakat *Wakalah* Distribution

Findings And Discussions

The Purpose Of Performance Measurement For Zakat Wakalah

For zakat institutions, zakat payers do not just need the information on how and to whom zakat is distributed but also information on how zakat beneficiaries used and benefit from the zakat fund received, any improvement in beneficiaries' skills and knowledge, and long-term well-being of zakat beneficiaries. Then only, the efficiency and effectiveness of the zakat distribution program can be proven. According to Johari (2023), assessing performance for zakat institutions are needed for the following reasons; (1) accountability and transparency, (2) program improvement, (3) evidence-based decision making, (4) stakeholder engagement, (5) enhanced social welfare and (6) evidence for advocacy and fund-raising. Performance measurement is crucial to understand the extent to which zakat-funded social initiatives have achieved their intended mission, how they have influenced the lives of the beneficiaries, and the overall societal changes they have brought about. By performing performance measurement, evidence of the initiatives could be gathered and analyse to determine the effectiveness of the social interventions and improvement needed for the zakat-funded social initiatives. Hence, zakat fund could be optimised to the most efficient and effective initiatives for the zakat beneficiaries that could generate the social outcomes and impact such as poverty reduction, improve access to healthcare and education, increased livelihood opportunities and enhanced social welfare.

The main concern on accountability in managing zakat *wakalah* should be concentrated on the question of whether the zakat refunds to the zakat payers are being used in an appropriate and legally acceptable manner or not. Unlike traditional financial institutions, zakat organizations

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are not profit-driven. Their success is measured in terms of how effectively and ethically they manage religious funds and fulfil the *Maqasid al-Shariah* (objectives of Islamic law), particularly in enhancing social justice. Hence, assessing performance of zakat institutions is related to producing results that meet the needs of the stakeholders while making the best use of resources (Abd Wahab & Abdul Rahman, 2011). Abioye Mustafa et al., (2013) classify zakat stakeholders into five main groups:

- *The definitive stakeholders*, whose claims are legitimate and urgent and who have the power to pursue their interests, such as the government and the board of zakat organisations
- *The dangerous stakeholders*, who possess power and urgency but lack a legitimate claim, for example media
- *The dominant stakeholders*, including zakat administrators and zakat payers
- *The dependent stakeholders* whose claims are legitimate and urgent but who lack of power such as zakat beneficiaries
- *The discretionary stakeholders*, which include fatwa committees and mosque committees

All these identified group of zakat stakeholders will require different types of information needs to assess the accountability of zakat institutions in managing zakat fund. While literatures on accountability of NPOs have claimed that performance measurement is needed to satisfy the information needs of various stakeholders, similar argument is applied for zakat institutions in managing zakat *wakalah*. In the context of zakat *wakalah*, zakat institution has similar role like NPOs as they have responsibility to manage the funds in the most effective ways while being the agent that connect the zakat payers with zakat beneficiaries. Accordingly, based on Behn (2003), this study proposes the purpose of social performance measurement for zakat *wakalah* that could provide information for each category stakeholders as listed in Table 4.

Table 4 : Purpose of Performance Measurement for Zakat Wakalah Distribution

Purpose	Information provided from performance measurement	Example of how zakat stakeholders use information from performance measurement
Evaluate	How well zakat payers use zakat refund for their social initiatives?	Definitive stakeholders such as the board of zakat institutions need to ensure that zakat payers utilise the zakat fund according to the prescribed rules on the identification of zakat beneficiaries. The outcome and impact information will help zakat institutions evaluate which initiatives are the most effective for the targeted beneficiaries. *Example: Measuring whether target amounts are collected or if distributions reach the intended asnaf (eligible recipients).*

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Control	How to ensure that zakat payers are doing the right thing using zakat refund?	The dominant stakeholders such as zakat payers need to assess the output and outcome whether the social initiatives undertaken are properly executed according to *wakalah* guideline. *Example: Monitoring compliance with regulations for fair and transparent disbursement.*
Budget	On what programs, people, or projects should zakat institution spend the zakat fund?	Dominant stakeholders such as top management of zakat institutions could provide a guideline for zakat payers to justify the allocation of zakat fund that address the urgent social needs. Example: *Using performance data to decide resource allocations among different asnaf categories or community development programs.*
Motivate	How to motivate staff, middle managers, nonprofit and for-profit collaborators, stakeholders, and citizens to do the things necessary to improve performance?	The definitive stakeholders such as government could encourage staff, volunteers, and even the wider Muslim community to improve their efforts in zakat collection and service delivery. Example: *Sharing performance results that highlight positive progress or areas needing improvement.*
Promote	How to convince that zakat institution is doing a good job?	The dangerous stakeholders such as media could showcase the positive impact contributed from zakat-funded social initiatives. Example: *Publishing reports showcasing success stories of recipients or community upliftment.*
Celebrate	What accomplishments have been achieved for zakat institution?	The dependent stakeholders such as zakat beneficiaries should be recognized and acknowledged for achieve certain milestones. *Example: Use performance data to assess zakat beneficiaries who successfully gaining certain skill competency, financial literacy or successfully overcome the poverty limit*
Learn	Why is some social intervention works or does not works?	The discretionary stakeholders such as regulators or zakat committees could discover what strategies, processes, or projects are most effective in fulfilling zakat's goals. *Example: Analyzing data to understand which outreach campaigns increase*

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		collection or which distribution methods reach the needy most efficiently.
Improve	What exactly should be done differently to improve performance?	The dominant stakeholders such as zakat payers could use insights gained from performance measurement to enhance future practices, policies, and programs related to use of zakat *wakalah* fund.
		Example: *Refining procedures, adopting new technologies, or updating stakeholder engagement approaches based on lessons learned.*

Source: Developed based on Behn (2003)

Proposed Social Performance Measurement Framework for Zakat Wakalah Distribution

In this section, this study presents the proposed social performance measurement framework to assess the effectiveness of zakat *wakalah* distribution. This proposed measurement indicator mainly able to help zakat institutions to assess zakat-funded social initiatives that have been supported and financed using zakat *wakalah* refund. Logic chain model identifies five elements; input, activities, output, outcome and impact. Input refers to the resources that are dedicated to the operation and is necessary for producing goods and delivering services of any organization. Resources include money, staff time, and capital assets spent to operate the organization, producing goods, and delivering services to the organization (Clark et al., 2004). Abd Wahab and Abd Rahman (2011) proposed on the use of performance measurement for zakat distribution which can be adapted from a model of charity sector such as UK Charity Act 2006 and Statement of Recommended Practices by UK Charity Commission. In the most recent Statement of Recommended Practices, it is mandatory for all large charities in UK to use accounting and reporting on outcomes and impacts as it can improved effectiveness, accountability, legitimacy and trust (Hyndman & McConville, 2016). Thus, the outcomes and impact measurement are crucial as evaluation tools to help stakeholders to get access of information of zakat distribution and consequently, gaining legitimacy and public trust.

As for zakat distribution, input refers to zakat institutions' resources that are used for the attainment of the desired output. On the other hand, output refers to the goods and services that resulted from the organization's activities such as the proportion of total operating expenditure relating to the beneficiaries of the charity or the total cost of services provided to beneficiaries (Cordery & Sinclair, 2013). From zakat institutions' perspective, the output is the services rendered by zakat institutions to zakat beneficiaries (*asnaf*) and society at large. The final dimension is the outcome and it is defined as the effects and impacts of the goods and services delivered by an organization on the beneficiaries. Examples of outcomes include changes in attitudes, behaviors, knowledge, skills, status, or level of functioning that result from an organization's activities (Clark et al., 2004). For zakat institutions, outcome refers to the effects and impact of the goods and services delivered by zakat institutions on zakat beneficiaries (*asnaf*). Based on the above definition, this study proposed an indicator to assess each element in the logic chain framework for selected zakat-funded social initiatives and activities. The indicators are presented in Table 5.

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Table 5: Proposed Social Performance Indicator for Zakat *Wakalah* Distribution

Inputs	Activities	Outputs Immediate	Outcomes Medium term (1-3 years)	Impacts Long-term (3 – 10 years)
Cash	Education sponsorship for *asnaf* students	No of students graduated in selected discipline	Acquire advanced knowledge and skills Higher chances of employment and earning higher wages Ability to face competitiveness and career growth	Skills and experience enhancements from the career Economic growth and development Foster innovation, productivity and social cohesion
Equipment, supplies and capital funding	*Asnaf* entrepreneurs empowerment	No of *asnaf* entrepreneurs that enter the market	Improve business management skills Acquire technical knowledge to use modern equipment Business expansion and sustainability Improve living standard	Economic growth and development Creation of valuable human capital From zakat recipient to becoming zakat contributor Provide employment opportunities for others
Medical facilities and equipment	Healthcare for *asnaf*	No of *asnaf* treated or use the medical facilities	Ability to work or become income earners for the family Improvement in the family engagement and relationship Can continue study, work or improve economic condition	More productive and healthy workforce Economically and emotional stability Participation in the community activities Improve social cohesion and health awareness

Source: Developed based on Ebrahim & Rangan (2014)

Conclusion

Numerous studies have recognised that transparency in reporting is one of the most effective methods for fulfilling accountability. As an Islamic public organisation with a social mandate, zakat institutions must exhibit transparency in providing information to stakeholders. Zakat institutions should address public criticism over their efficiency and efficacy in zakat distribution by providing social impact reports on the outputs and outcomes of their distribution efforts. This initiative not only serves the reputation of the institutions but also fosters trust among stakeholders and motivates their ongoing support for zakat institutions. Notwithstanding the deficiencies identified in the reporting of certain zakat organisations, the COVID-19 pandemic may serve as a catalyst for these institutions to enhance their reporting processes, shifting towards impact-based reporting that emphasises performance-related information. This study offers recommendations for the use of social performance measurement in NPOs to evaluate the effectiveness of zakat *wakalah* distribution.

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This study addresses gaps in zakat literature by emphasising the necessity for social performance measurement to fulfil stakeholder information requirements, as evidenced by the literature in the social sector. Evaluating performance through the logic chain framework necessitates that zakat institutions to collect and analyse data pertaining to inputs, activities, outputs, outcomes, and impacts of zakat-funded social initiatives to ensure the efficient allocation and effective utilisation of zakat *wakalah* refunds. The details on all five components of the logic chain framework could aid zakat institutions in social impact reporting. For instance, Lembaga Zakat Negeri Kedah (LZNK) has started publishing zakat social impact reports in 2024 that provide a detailed information on the outcome and impact of their zakat programs including *asnaf* empowerment, smart-sawah farming and education. The scenario reveals that zakat institutions have begun to recognise that publicising the outcomes and impacts of their social projects will strengthen public trust and the legitimacy of the zakat organisations. This study is purely conceptual; hence, subsequent research should refine the framework and evaluate the components within each dimension of the logic chain framework. Qualitative research involving key stakeholders is advocated to gain a profound understanding of their perspectives on social performance assessment and outcome-based reporting for zakat institutions.

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