



DOI: [10.51377/azjaf.vol2no1.47](https://doi.org/10.51377/azjaf.vol2no1.47)

DEVELOPING A MODERN ZAKAT MANAGEMENT MODEL DIGITAL TECHNOLOGY 4.0 VERSION

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A PEER-REVIEWED ARTICLE

(RECEIVED – 14 JUN 2020; REVISED – 26 AUGUST 2020; ACCEPTED – 1 OCTOBER 2020)

ABSTRACT

This study aims to develop a modern zakat management model by analyzing the zakat payment method using marketable securities and their impact on zakat fund fluctuations managed by a modern amil zakat institution in Indonesia. Zakat institutions have never implemented the zakat payment transactions like this in other Islamic countries such as Malaysia, Pakistan, and Middle Eastern countries. The study's focus is on The National Zakat Board of Indonesia as a modern amil zakat institution that has made this transaction to accommodate muzakki investor's goodwill to pay zakat obligation in the form of shares that are still traded. According to fiqh, the payment of zakat using marketable securities in the form of traded shares is still in debate. According to fiqh scholars, Imam Hanafi does not allow the zakat fund investment. While Imam Maliki, Imam Syafie, and Imam Hambali, including Yusuf Al-Qardhawi, allow some arguments. From a financial analysis point of views, to reduce the risk of decreasing zakat funds due to stock price volatility, a linkage between zakat funds in the form of shares traded with general Islamic insurance is needed, which in this case, the researcher refer to as *zakat linked takaful* under *wakalah-waqf contract*. This research used literature and empirical study to compare zakat management practices in various Muslim countries, to develop a modern zakat management model collaborated with digital Islamic financial institutions in the banking and non-banking sectors.

Keywords: Modern Zakat Management, Marketable Securities, Digital Banking and non-banking sector, Wakalah-Waqf Contract.

INTRODUCTION

Technological 4.0 is the trend towards automation and data exchange in technologies and processes, including cyber-physical systems, the internet, cloud, and artificial intelligence. Technology changes the way of how people doing business in the financial sectors. The conditions influence the zakat sector to use this technology to fulfill the border of mismanagement in a remote area.

Based on the digital news in 2018, The National Zakat Board of Indonesia assigned a Memorandum of Understanding with PT Henan Putih Rai Sekuritas, a securities company in Indonesia, to manage the zakat from muzakki. The interesting point in this MoU is that the zakat paid by muzakki used marketable securities that are still traded in the stock exchange market, especially in Jakarta Islamic Index (JII). In another case, in 2018, The National Zakat Board of Indonesia launched a type of mutual zakat fund. This zakat payment of transactions became the modern issue of zakat management in the era of technology 4.0, which is still debatable in sharia perspectives.

This study talks about the modernization of the zakat payment method according to a Muslim investor's good faith in paying zakat in the form of marketable securities that are still traded on the stock exchange market. The zakat payment transaction method using marketable securities has been carried out by The National Zakat Board in Indonesia, as requested by the muzakki. Zakat management faces various challenges over changes in the more modern social environment. Creativity and innovation are needed in zakat administration techniques (Johari, 2015). According to Al-Qardhawi, a new approach that focuses on management based on muzakki behavior as a source of zakat funds is needed. (Widarwati, 2016).

Technological developments have modified the system of financial sectors and business processes. Zakat institution needs to consider the possibilities of modifying modern zakat payments using the latest financial system trends. These possibilities open the doors to ijihad in the Fiqh Muamalah in the financial sector that underlines

the procedure of transactions. Al-Qardhawi (1999) provides recommendations for zakat practitioners with the concept of *ijtihad* because of changes in the modern world. A new approach is needed in collecting zakat that accommodates modern transactions such as internet banking or other financial facilities. In this case, the zakat center must cooperate with several financial institutions (Suhaili, 2009). Salim (2003) mentioned that one of the recent developments indicating Islamic philanthropic and welfare organizations' growth is establishing modern management and drawing funds.

There is an urgent need for theoretical and empirical studies covering the various aspects of zakat fund investment-related to Muslim societies. International Fiqh Academy of OIC has declared zakat money investment as allowed, which is found in article 15_3_3, in it 11-16 Oktober 1986. According to the principle of Shariah, it is permitted to invest zakat in different projects where the beneficiaries attain their required financial stability, or an institution of zakat collection can invest that money on a condition when they have a pool of funds to give financial support to the beneficiaries in case of urgent need. Also, this process must maintain a risk and loss-free situation. There are some suggestions and discussions on investment of zakat money being permitted as such: Kuwait Finance House, fatwa no. 247 and 426 and Kuwait Zakat House, Fatwa No. 81. (Uddin, 2016).

This research provides literature studies to discuss potential theoretical and practical aspects of zakat on developing a modern zakat management model in the digital technological 4.0 era by collaborating with banking and non-banking financial institutions. This research also using theoretical and comparative studies on zakat focus mainly on the *fiqh* (juristic) aspects. From the background of research, this study has four stages:

1. Assess whether sharia allows the zakat fund investment, including paying zakat with marketable securities that are still traded on the stock exchange market.
2. Assess the zakat institution accounting report system's financial impact on zakat transactions with marketable securities that are still traded on the stock exchange market and mutual fund instruments.

3. To find the method of minimizing the risk of a decrease in the value of the receipt of zakat on fluctuations in the form of marketable securities.
4. Deriving a new modern zakat management model in the technological 4.0 era collaborated in zakat management organizations and other Islamic financial institutions in the banking and non-banking sectors.

LITERATURE REVIEW

Definition and Measurement of Zakat

There are two acknowledged objectives of zakat. The first is that zakat acts as a mechanism that helps close the gap between the poor and the rich. This redistribution of wealth within society is assumed to increase the poor's purchasing power, enabling them to contribute positively to the economic cycle, thereby facilitating economic growth and improving others' well-being. The second point is to motivate Muslims to invest 'idle money.' For otherwise, there is a depletion in their wealth. According to Monzer Kahf, the subject of zakat includes 1) agricultural products, animal, gold, silver, cash. 2) investment returns on fixed assets, human capital, salaries, wages, and professional salaries.

Management of Zakat from Classical Era

Zakat was first implemented in year two of Hijrah (the Prophet's migration, PBUH, from Makkah to Madinah). In the Prophet's time, the zakat payment in Medina was mostly agricultural and livestock zakat because Medina's economic income is mostly derived from these two fields. The collection and distribution of zakat in the Prophet era are localized. It means that zakat funds collected in one region are not distributed outside the region (Kahf, 2000). In the era of Khalifah Saidina Umar Al-Khattab (634-644 M), the zakat administration was audited. Umar obliged the collection of zakat from trade, gold, and silver and collected taxes from non-muslim who trade in the Muslim society (Masyita, 2018).

Management of Zakat from Various Countries

After the fall of the Ottoman Empire, Yemen, Saudi Arabia, Malaysia, Libya, Pakistan, and Sudan are Muslim countries that enacted laws to collect zakat on an obligatory basis. While Kuwait, Jordan, Bangladesh, Qatar, Oman, Iraq, and Bahrain are other countries that established governmental organs to collect and distribute zakat without making its payment to obligatory bodies. Several Muslim countries, e.g., Indonesia, have established national zakat organizations (Kahf, 2000).

Zakat in Yemen

Zakat in Yemen has been collected and distributed since the first Muslim governor. Monzer Kahf (2000) zakat in Yemen has been collected since around the year 9 of Hijrah. Zakat on agriculture products, livestock, trade inventory, and money is collected.

Zakat in Egypt

In terms of zakat management, Egypt is the country with the most extensive collection and distribution network. The zakat management network in Egypt consists of four main elements: 1) voluntary zakat committees that are not affiliated with the institutions, 2) Ministry of Waqf, and a network of registered non-profit organizations, 3) The Nasir Social Bank Group, 3) The Egyptian Faisal Islamic Bank Group. According to Act No. 48 of 1977, banks take zakat from the capital, shareholders profits, and free funds from within the bank. Meanwhile, The Nasir Social Bank Group, owned by the government, established zakat directorates in its branch offices.

Zakat in Saudi Arabia

Zakat in Saudi Arabia collected on an agricultural product, livestock, stock of trade and other mobile business assets, and certain professionals and individual proprietors' income. The collecting agency in Saudi Arabia is an administration within the finance ministry called the Agency of Zakat and Taxes. In Saudi Arabia, investors pay zakat on investment returns. Deposited funds or assets that are not used are zakat objects. Loss-making capital is also an

object of contemporary fiqh zakat not yet explained in detail about zakat in welfare and investment.

Zakat in Jordan

In Jordan, the law on zakat already has binding regulations but is limited to livestock, land ownership, and imported goods. Zakat is managed by the directorate of the ministry of waqf. The central and provincial governments carry out the collection and distribution of zakat funds. What is interesting in Jordan is that muzakki can determine their zakat funds to be distributed. In this country, zakat is a tax deduction.

Zakat in Kuwait

In Kuwait, the zakat fund is managed by the zakat house affiliated with the ministry of waqf. Zakat House in Kuwait is actively involved in international poverty programs.

Zakat in Pakistan

Management of zakat in Pakistan is managed by a non-profit institution affiliated with the Ministry of Finance, where every province has a zakat body with fiqh experts. The government collects zakat from deposits in banks, stock, securities products, insurance, and agricultural products. Meanwhile, zakat, which comes from livestock, gold, silver, and cash, is distributed directly by muzakki. In Pakistan, not all of the zakat revenue is distributed by the Central zakat fund. Some portion of the zakat proceeds is retained for investment in non-interest basis investment (Clark, 2000).

Zakat in Malaysia

The political structure of Malaysia has its stamp on the administration of zakat in the country. Zakat management in Malaysia is centralizing at the state level due to each state ruler's authoritative power on the religious matter, including zakat. Zakat management in various states of Malaysia is different. Malaysia uses e-Zakat internet-based applications. The collection of zakat in Malaysia is under the authority of the government. For example, Lembaga Zakat Selangor, a zakat institution for Selangor's state in Malaysia, has its own

Department of Asnaf Development, responsible for capital assistance. This amount is combined with the budgets by other departments invested.

Zakat in Indonesia

Zakat in Indonesia is managed by The Nasional Zakat Board based on law No. 23/2011 article 1 BAZNAS is an institution that manages zakat nationally, and LAZ is a community established institution that has the task of assisting the collection, distributing, and utilizing the zakat. Zakat Payment Method in Indonesia has been creatively designed in order of technological changes.

Issues in A Modern Zakat Management

Issues in zakat management can be briefly explained by the shift in the current practice of zakat. The objective of zakat management is to achieve the best possible outcome in the timely collection and distribution of zakat as ordained in Islamic Shariah (Rahman et al., 2003). Al-Qardhawi (1999) indirectly recommended that zakat practitioners must be creative and innovative in facing the new challenges in the modern demands. Zakat Administrators must ensure that the concept of *ijtihad* incorporates in zakat funds management (Mujaini, 2005).

One of the new approaches to fund collection has incorporated many modern transactions, such as internet banking and other financial facilities. The new practice's approach is that the zakat center needs to collaborate and have a corporate link with many financial institutions (Suhaili et al., 2009). Issues in modern zakat management are the investment of the zakat fund. Fiqh scholars have various arguments on the issues. Modification of investment zakat fund is zakat in the form of marketable securities carried out by The National Zakat Board of Indonesia to fulfill the muzakki willingness. The zakat payment using marketable securities that are still traded in Indonesia Stock Exchange, especially in Jakarta Islamic Index (JII).

The Zakat Fund Investment Model

The zakat fund investment is a big issue in modern zakat management that is still in debate. Based on our literature review

Imam Hanafi believes that zakat funds should not be saved or invested. While Imam Maliki, Imam Syafie, and Imam Hambali stated that zakat funds could be spent on a specific condition. Some opinions from contemporary Islamic experts who require the investment of zakat funds are Yusuf Al-Qardhawi, Sheikh Mustafa Az-Azraqa, Sheikh Abd Fatah Abu Ghuddah, Abd Azizi Al-Khiyyat, and the majority of experts rely on arguments (Delorenzo, 2000). Al-Khiyyat says that it is seen as appropriate and necessary to apply for the zakat money in the investment of the daily projects, like industries and businesses, for the beneficiaries (Uddin, 2016).

The experts who do not justify invest zakat money are Wabbah Az-Zuhaliy, Abdullah Nasih Ulwan, Muhammad Taqi Usmani, Sheikh Tajuni Sabunni Muhammad, and Sheikh Adam Sheikh Abdullah Ali Abdullah. Several reasons that invest in zakat as a legal risk may affect the validity of payment, delaying the disbursement, exposing the zakat fund to risk, denying individual rights to zakat, and violating amil to spend zakat. In contrast, arguments justify zakat fund investment because of the reason in Al-Quran Surah Al-Mulk (67:15) and Hadith. There is the support that the Prophet (PBUH) and his friends invest in charity. In a modern era, Fatwa investment of Zakat Fund issued by Majma Al-fiqh al-Islammy, Advisory Committee of Sharia Baitul Tamwil Kuwait, and Islamic Religious Council of Melaka (Doktoralina, 2018).

Some Muslim scholars suggest that to increase the benefits of zakat, it is better to diversify managing zakat methods. As a source of Muslim revenue, Zakat should not be limited to distribution to fulfill the immediate needs. At the same time, it should be invested for the future benefit (Ahmad & Mohammad, 2012). In the seminar of zakat held in October 1986, the scholars discussed the issue of investing zakat on the beneficial project without direct transfer of ownership of zakat to the recipients.

Several models of investment in zakat fund implemented in many countries based on Muslim scholars' opinion:

1. *Anwar's Model*

Anwar's model proposes establishing a unique financial institution called: Awqaf-Zakat Investment Fund" (AZIF), investing zakat funds into long-term maturity. Its paid-up capital would be

distributed in terms of shares to the zakat beneficiaries. It collaborates with Islamic banks to engage in financing activities according to shariah compliance modes in projects that most benefit the zakat beneficiaries. To manage the loss risk, it diversifies its investment portfolio.

2. *Farab Model*

To utilize zakat for investment purposes, there is a need to establish a special zakat investment bank (*bank ihtithmar al-zakawiyah*). The bank coordinates with the zakat management organization to conduct financing activities that any other bank may undertake.

3. *Zaki Badawi's Model*

Zaki Badawi's model distinction between the utilization of Zakat al-Fitr and zakat al-mal. The former should be used for the urgent consumer need of the poor and needy, and the later should be invested in productive ventures such as textile factories, machine tools of manufacturing, and low-cost houses as a long-term solution to overcome the problem of poverty.

4. *The Practice Model of Kuwait Zakat House*

According to the Sharia principles, the Kuwait Zakat House is a government institution to collect and distribute zakat funds and other donations. The Kuwait Zakat House investment-oriented approach to zakat disbursement keeps the zakat fund in two types of accounts: current and saving accounts. It is earning on saving accounts that increase the original fund. It provides free interest loan to people in need of money, finances the vocational training for capacity building, and sponsors poor students education.

5. *The Practice Model of Zakat Center in Malaysia*

Various methods have been planned and arranged by the zakat center in Malaysia to manage and increase existing zakat funds. One of them is by doubling the zakat fund through investment activities (Embong et al., 2013).

Table 1. Country Analysis of Zakat Fund Investment Type

No.	Countries	Investment Zakat Fund Type
1.	Saudi Arabia	In Saudi Arabia, investors pay zakat on investment returns. Deposited funds or assets

		that are not used are zakat objects. Loss-making capital is also an object of zakat. For Maslahah, it is permissible to invest in surplus zakat funds by depositing it in Islamic banking, saving account products (Shah, 2013).
2.	Kuwait	<p>Investment of zakat money being permitted as such: Kuwait Finance House, fatwa no. 247 and 426, and Kuwait Zakat House, Fatwa No. 81 (Uddin, 2016).</p> <p>The kuwait zakat house investment oriented approach to zakat disbursement by keeping the zakat fund in two types of accounts: current and saving accounts.</p> <p>It is earning on saving accounts that increase the original fund. Its provides free interest loan to people in need of money, finances the vocational training for capacity building, and sponsors poor students education.</p>
3.	Malaysia	Various methods have been planned and arranged by the zakat center in Malaysia to manage and increase existing zakat funds. One of them is by doubling the zakat fund through investment activities (Embong et al., 2013). Selangor Model and CZM (Uddin, 2016)
4.	Pakistan	In Pakistan, not all of the zakat revenue is distributed by the Central zakat fund. Some portion of the zakat proceeds is retained for investment in non-interest basis investment (Clark, 2000).
5.	Indonesia	Zakat fund invested in the distribution program to the needy, in saving account bank. Modification of the zakat payment method using Marketable securities that are still traded in the Indonesia Stock Exchange Market, especially in the Jakarta Islamic Index (JII) and zakat in Mutual fund.

6.	Bangladesh	Investment of zakat fund through Islamic Bank Zakat House (IBZH) (Uddin, 2016) investment of zakat money in micro-finance sectors.
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Source: Compiled by Researcher.

METHODOLOGY

This research tries to develop a modern zakat management model by collaborating zakat management organizations with Islamic financial institutions in the banking and non-banking sectors. We analyze classical study literature and compare the zakat management model from several countries to develop our model. A comparative case study covers several countries' cases in generating a causal question about how and why the particular policies were implemented. Comparative case studies involve analyzing and synthesizing the similarities, differences, and patterns across cases to establish the model. Our analysis begins with defining the zakat fund investment and zakat fund investment arguments from various Muslim scholars. We analyze the case regarding the arguments and find the zakat investment model literature in various countries. Our comparative study develops a modern zakat management model collaboration between zakat management organizations and Islamic financial institutions in the banking and non-banking sectors (e.g Islamic banking, Islamic insurance, Islamic financial technology, and Islamic securities company).

RESULTS AND DISCUSSION

Critical Thinking of A Modern Zakat Management

Technological developments have modified the system of financial sectors and business processes. Zakat institutions need to consider the possibilities of a modification of modern zakat payments using the latest financial system trends. Zakat fund investment is becoming a big issue in modern zakat management as the impact of technological developments. Any activities that enhance and make the available amount of zakat grow are considered an investment of zakat (Al-Fawzan, 2005). The classical jurists made allocations for zakat investment in their classical works through the types and scope

of investment are, to a certain extent, limited. The allocation of zakat for investment purposes can be made only after several fundamentals of zakat distribution are considered (Ahmad, 2012).

The modern Zakat institutions invest zakat funds from undistributed zakat revenue. The allocations can be made from the available excess of zakat revenue or a purposely retained amount allocated, especially for investment. Investment of zakat occurs to the undistributed amount of zakat to avoid the gradual erosion of its values and ensuring future returns for the fund. The generated income proceed an extra cushion for any disruption in zakat flows (Anwar, 1995). The zakat invested by ensuring future returns for the fund. The income generated provides extra cashflow for zakat. Allocations for investments can be made alongside to fulfill consumption needs. In practice, the investment of zakat funds is required for beneficiaries' interest (8 asnaf).

Regarding this case, in order to fulfill the muzakki expected, zakat payments with Marketable securities can be approved under Imam Maliki, Imam Syafie, Imam Hambali, and Yusuf Al-Qardhawi perspectives. Meanwhile, marketable securities used by muzakki to pay zakat obligation influenced by macroeconomic conditions. According to the principle of Shariah, it is permitted to invest zakat in different projects where the beneficiaries attain their required financial stability, or an institution of zakat collection can invest that money on a condition when they have a pool of funds to give financial support to the beneficiaries in case of urgent need. Also, this process must maintain a risk and loss-free situation. There are several suggestions and discussions on investment of zakat money being permitted as such: Kuwait Finance House, fatwa no. 247 and 426 and Kuwait Zakat House, Fatwa No. 81 (Uddin, 2016).

The volatility on stock market prices, including in Jakarta Islamic Index (JII), should be backed up to manage risks. To manage risks from the securities market, the zakat management organizations should comply with the Islamic financial institution of the non-banking sector to handle the risks from the volatility market. In this research, our analysis develops a modern zakat management model with a collaboration between Zakat Management Organizations and

Islamic financial institutions in the banking, and non-banking sectors show in figure 1.

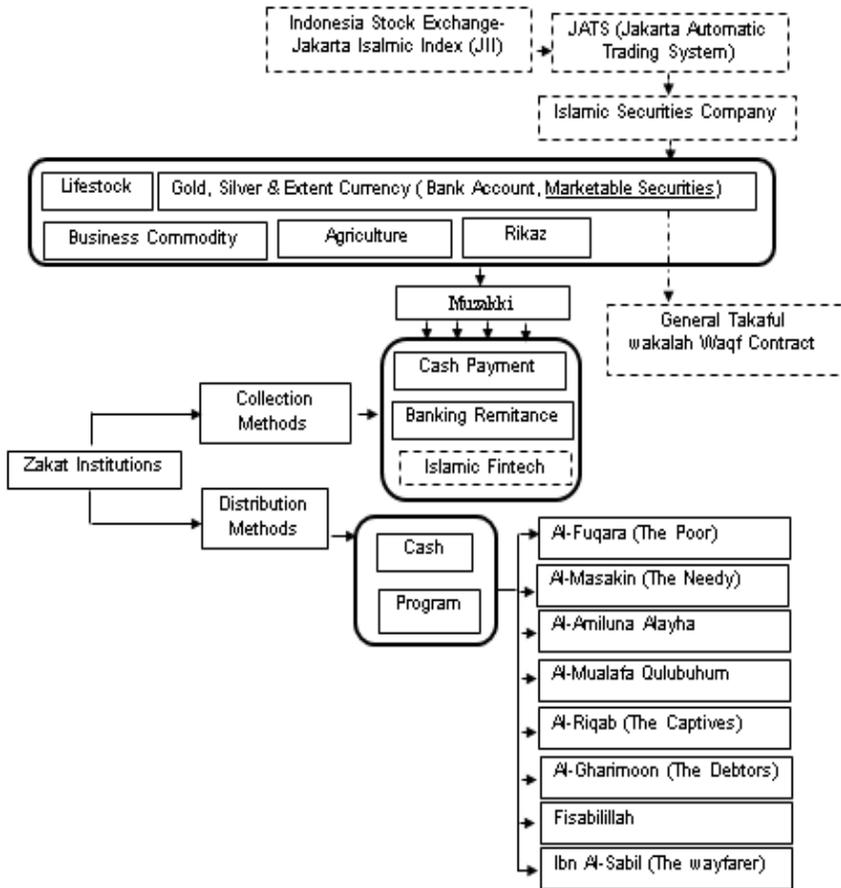


Figure 1. Scheme of a Modern Zakat Management Model Collaboration Between Zakat Management Organizations and Islamic Financial Institutions in Banking and Non-Banking sectors.

Source: Design and model by the researcher.

The zakat management organizations must collaborate with Islamic financial institutions, such as Islamic banking, Islamic fintech, and Islamic insurance, to fulfill the goals of effective collecting and

distributing activities. The zakat management organizations might also collaborate with Islamic securities companies and the stock markets industry. The argument is not to allow the zakat fund investment, based on the analysis of the loss of risk regarding the fund invested, which is avoidable in shariah perspectives if zakat funds are losses in the amount. In this case, to manage the risk of loss in the zakat fund invested, the organizational zakat management should collaborate with general Islamic insurance under the *wakalah waqf* contract, as we mentioned by *zakat linked takaful contract*. This *wakalah waqf* contract is used by general Islamic insurance to manage the risk of loss. In the event of losses or the decrease of zakat funds invested because of the stock exchange market's volatility, the Islamic general insurance will cover the risk so those the price of zakat funds invested in stock will be stable and in control.

General Takaful Under Wakalah Waqf Contract

General Takaful is one institution to manage risks market. Takaful in shariah's perspective, is under *tabarru* contract (*hibah*). General takaful using Wakalah waqf contact shown in the mechanism as follow:

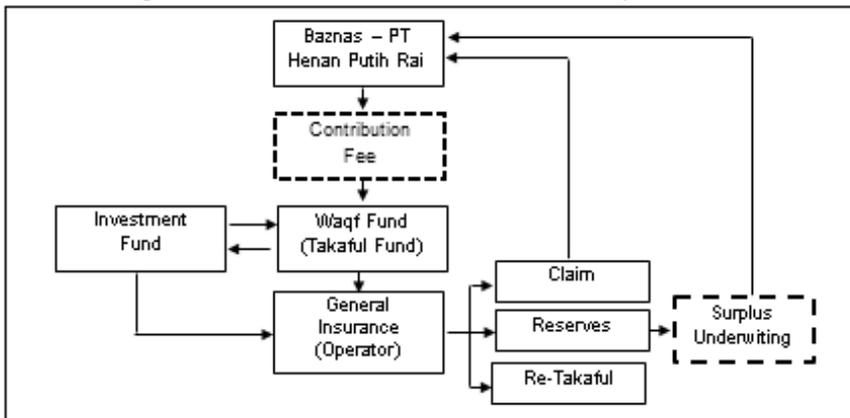


Figure 2. Scheme of General Takaful Wakalah-Waqf Model
 Source: Sula, Syakir. 2016. Principles of Islamic Insurance. Modified.

In this case, the participants are The Zakat National Board (BAZNAS), accepting zakat from muzakki in the form of marketable

securities that are still traded in the Indonesia Stock Exchange under the Jakarta Islamic Index (JII). According to fiqh, The Zakat National Board holds the marketable securities within six months or a year before it is sold. To hold the decrease of zakat fund in the form of stock, The National Zakat Board, represented by PT Henan Putih Rai, collaborate with General Islamic Insurance company under wakalah waqf contract to manage risks. In the event of the decrease in zakat stock price, the general Islamic insurance will pay the claim fees to cover the loss. Besides, if there are no losses, the general Islamic insurance company will pay the surplus underwriting fees.

According to this concept, waqf funds will be used to expand benefits and protection to takaful participants. According to the latest research conducted by more than forty Muslim scholars and Sheikh Muhammad Taqi Utsmani, a waqf contract model or a combination of wakalah and waqf contracts is the best model for developing a takaful system. Wakalah contract model in insurance is widely practiced in The Middle East, where insurance companies as fund managers get an *ujroh* in the form of percentages. At the same time, all underwriting surpluses belong to the participants. In Indonesia, this wakalah contract has reserves in the form of *qard hasan* funds to cover underwriting losses. The Wakala waqf model was first developed in Pakistan by Mufti Taqi Utsmani in 2006. Wakalah modified waqf contract was also implemented in the Middle East, South Africa, and Malaysia. In Indonesia, The Indonesia Ulema Council issued Fatwa No. 106/DSN-MUI/XII/2016 about waqf products in Islamic insurance. Regarding the modern zakat issue in the zakat payment method discussed in this study, the development of wakalah waqf contract and collaboration between the Islamic insurance industry and the zakat management organizations need to be developed. According to this issue, currently, there is an urgent need for modern zakat management to collaborate with Islamic financial institutions in banking and non-banking sectors (e.g., Islamic banking, Islamic insurance, Islamic financial technology, and Islamic securities company).

CONCLUSION

The zakat fund investment, including the zakat payment method with marketable securities, is under debatable among fiqh scholars. Imam Hanafi believes that zakat funds should not be saved or invested. While Imam Maliki, Imam Syafie, and Imam Hambali stated that zakat funds could be spent on a specific condition. Al-Qaradawi provides recommendations for zakat practitioners with the concept of ijihad because of changes in the modern world. A new approach is needed in collecting zakat that accommodates modern transactions such as internet banking or other financial facilities. In this case, the zakat center must cooperate with several financial institutions such as Islamic banking, Islamic insurance, Islamic financial technology, and Islamic securities company.

In this case, to manage the risk of loss in the zakat fund invested in marketable securities, the organizational zakat management should collaborate with Islamic insurance under the wakalah waqf contract. This contract is used by general Islamic insurance to manage the risk of loss for the underlying assets. In the event of the loss or the decrease of zakat funds invested because of the stock exchange market's volatility, the Islamic general insurance will cover the risk so those stock prices will be stable and in control.

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