TOWARDS A DIGITALIZED COLLABORATIVE ZAKAT MANAGEMENT SYSTEM FOR ACCELERATING GOOD GOVERNANCE PRACTICES IN THE NEW NORMAL

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ABSTRACT

Many countries around the world are slowly beginning to move from managing the COVID-19 crisis to recovery and reopening of economies. In Malaysia, the government has launched various initiatives with the main aim to empower people, propel business and stimulate the economy. However, the socio-economic shock brought by COVID-19 pandemic is of the magnitude that the world has not experienced in decades. Hence, government alone cannot address the enormous challenge without collaborating with the diverse and inclusive stakeholders. As one of the collaborators, zakat institution is well positioned to play a significant role in this transformation. However, in meeting the demand for this role, zakat institutions need to adapt to the major shifts in many aspects of the pre pandemic way of doing things. One significant shift started at the beginning of the pandemic in Malaysia where many industries experience sharp increase in the adoption of digital channels. This is expected to accelerate and moving forward the government is providing help in moving towards more comprehensive adoption of digitalization. Given the current scenario, this paper proposes a model based on digitalization of collaborative zakat management for Pusat Pungutan Zakat, Wilayah Persekutuan (PPZ-MAIWP). The model provides a starting point in understanding the capability required to move towards more comprehensive digitalization of services provided by PPZ-MAIWP. The digitalization model is based on a collaborative effort between PPZ-MAIWP and other organisations in distributing zakat for empowerment initiatives. Using a developed impact assessment prototype system, this paper will provide a simulation results where PPZ-MAIWP will be able to short list organisations based on accumulated highest score received for the following components: governance structures, capability to deliver initiatives effectively and clarity of targeted socio-economic impact. Once the organisations are short listed, PPZ will then call for an online meeting with the selected organisations before making the final decision. The use of the digital model allows PPZ-MAIWP to make decisions faster, more objective and adapt to remote workplace. In addition, the selection criteria can also be used subsequently by PPZ-MAIWP to monitor the progress of the initiatives and also for the selected organisations to report on their progress. This forms part of the risk management process and in turn enhances effective delivery of sustainable empowerment initiatives funded by zakat fund. It is also an important mechanism to facilitate timely reporting on the social economic impact delivered that is crucial in enhancing stakeholders’ engagement and trust. Hence, this system accelerates good governance practices throughout the zakat distribution ecosystem. The model and the simulation presented can also act as a starting point in operationalisation of more comprehensive digitalization by PPZ in the new normal. Overall, the new normal provides substantial opportunities for PPZ to accelerate adoption of digitalization and good governance practices throughout the zakat ecosystem.
Keywords: Digitalisation, collaborative zakat management system, governance

INTRODUCTION
COVID-19 pandemic has impacted an array of socio-economic issues and exacerbated some ingrained social issues, such as poverty and inequality. In mitigating these issues, many organisations have proactively engaged in various corporate social responsibility (CSR) activities, particularly those that can offer immediate help and assistance to those affected, while going through financial strains due to pandemic driven measures to control the spread of the virus. The socio-economic shock brought by COVID-19 pandemic is of the magnitude that the world has not experienced in decades and would require collaborative efforts among diverse and inclusive stakeholders in tackling the socio-economic issues during the pandemic and in the long-run. In Malaysia, zakat institutions have long been engaged in tackling poverty and are well-positioned to play a significant role as collaborators in Malaysia’s post-COVID-19 economic transformation initiative. However, in meeting the demands of this role, zakat institutions need to adapt to the major shifts of the post-pandemic way of doing things. One significant shift which actually emerged at the beginning of the pandemic in Malaysia was the swift adoption of digital channels. Acknowledging this new reality, this paper proposes a model for the digitalization of a collaborative zakat management system to be adapted by Pusat Pungutan Zakat, Majlis Agama Islam Wilayah Persekutuan (PPZ-MAIWP). The model provides a framework for PPZ to shortlist potential strategic partners in distributing zakat for empowerment initiatives based on three main components: governance structure, capability to deliver initiatives effectively and clarity of targeted socio-economic impact. These components enhance the delivery of sustainable socio-economic impact to the beneficiaries. The focus on empowerment initiatives is in line with the various government economic initiatives aimed at empowering the society (Seman & Ariffin, 2017). In addition, the emphasis on the importance of working together to ease the impact of the pandemic COVID-19 will also raise people’s expectation for zakat institutions to accelerate and maximise their socio-economic initiatives. This in turn offers great opportunities for zakat institutions to actively revisit their CSR strategies and initiatives. High-quality CSR programmes are more likely to be successful in terms of impacts and sustainable over time (Barnett et al., 2020).

SUSTAINABLE SOCIO-ECONOMIC INITIATIVES IN THE NEW NORMAL
The COVID-19 pandemic has resulted in unprecedented disruptions across all sectors causing huge impact on people’s lives, families and communities in Malaysia and around the world. In a recent Asean Special Summit on COVID-19 via video conference on 14 April 2020, country leaders of all the member states reaffirmed commitments regarding collaborative efforts in addressing critical health, economic and social issues related to the COVID-19 pandemic. This collaborative approach is equally important at the national level in order to mobilise all the assets of the country including public, private and nonprofit sectors to support the national recovery strategies (Gwadabe & Rahman, 2020). In a press statement on 24 March 2020, the Malaysian Institute of Economic Research predicted that the real GDP growth of Malaysia in 2020 will drop from 4.0% to -2.9%, with up to 2.4 million job losses (Bond, 2020). Given this scenario, the rational approach is to develop a model to foster sustained network among the collaborators that will enhance the sustainability of national recovery strategies. To achieve this, Hou, Zhang & Guo (2019) highlighted the critical role of trust as a valuable relational asset in the development and maintenance of relationships among stakeholders.

Nonprofit sector consists of socially focused institutions including nongovernmental, nonprofit, partially private or public civil society organisations. This paper will use the term
NGOs to represent the various organisations in this sector. Leveraging on their capability in resolving social issues, past research has provided evidence that integrating nonprofit sector institutions to deliver social goods in national recovery strategies following a major disruption reduced compounded financial strain and promote sustainable socio-economic development (Hutton, 2018). NGOs possess the wealth of experience in responding appropriately to the needs of their beneficiaries. Hutton (2018) found that partnerships between NGOs and governments in New Zealand provide expanded service provision to be sustained through resource sharing towards disaster risk reduction and sustainable development following a major earthquake in rural Canterbury on the 4th of September 2010. Hence, this paper argues that nonprofit organisations (NGOs) are one of the key strategic partners in collaborating with zakat institutions in delivering sustainable socio-economic initiatives. In addition, funding provided for the NGOs through this collaborative approach also provides the much-needed funding support as these organisations can expect to also suffer severe funding cuts due to the COVID-19 pandemic. In a recent survey of 550 charities operating during the COVID-19 crisis, most NGOs reported that they would only be able to survive for three months unaided. In the same survey by the Institute of Fundraising (UK), it was found that only 37% of NGOs were confident that they could survive longer than six months without additional funding (Bond, 2020).

Malaysian NGOs can also expect to experience a significant decline in funds as potential funders are themselves facing sharp declines in revenue as a direct result of the COVID-19 pandemic. However, as Malaysia has no specific policy on this collaborative approach and several incidences of misappropriation involving NGOs, potential funders may want higher assurance that the funding they provide translates into measurable outcomes that meet their expectations. Misappropriation of funds following a disaster in Malaysia is reported by the Malaysian Auditor General reported in 2006 on misappropriation of funds for affected communities due to Tsunami in Malaysia that RM9.82 million was spent on repairs and building of new homes for the victims, however, “contracts were not signed, projects were completed late and the quality of the work was shoddy”. In addition, RM9.84 million was disbursed for boat repairs and purchase of fishing nets, outboard motors and boats, but these equipments were not able to be used by the fishermen because they need to have certain skills to operate the equipment. As such, this RM9.84 million was considered as a wastage (Vasudevan, 2006). Hence, it is important that NGOs are able to convince potential funders that they possess the competence and capacity to efficiently carry out their responsibility in supporting their beneficiaries. In achieving this, NGOs are expected to communicate their social performance to the funders. Ebrahim & Rangan, (2014) argue that one of the most widely advocated measure of social performance involves an assessment of impacts or results.

“Without effective outcomes measurement we are left in a state of uncertainty about whether our organisations and social programs and initiatives are working effectively and if we are spending scarce resources in the best way possible to achieve the greatest social impact”.

(Flatau et al., 2015)

Accountability and Impact Measurement
Organisations operating in the not-for-profit sector are diverse but share a common mission of providing goods and services for the advancement of society. In funding social missions, the source of funds for NGOs may range from private donations to government grants and even revenue generated from social entrepreneurship endeavors. In many countries, the desire of fund provided to address their CSR objectives through NGOs has heightened the demand for NGOs to demonstrate greater accountability to the fund providers and the constituencies which are served. In line with this, there has been greater research interest in performance measurement
and management by NGOs which are key mechanisms in discharging accountability. Despite such interests, there is little consensus among the researchers and NGOs as to what are the best measures of social performance by NGOs. In literature on measuring performance by NGOs, Cordery and Sinclair (2013) notes that while performance measurement in the not-for-profit sector focuses on outputs, outcomes and impact, the focus differs from one NGO to another. In addition to these measures, Ebrahim and Rangan (2014) argue that organisations operating in the not-for-profit sector are also under growing pressure to demonstrate the impact of their social initiatives. To differentiate between outcomes and impact, they note that outcomes refer to lasting changes in the lives of individuals while impact refers to lasting results achieved at a community or societal level. Even though there are many variations on what should be focused on in measuring performance of NGOs, performance measurement continues to be debated and further refined through multiple studies in the area. Nevertheless, these literatures summarized the main components of the social performance measurement as in Figure 1 below.

**Figure 1**: Components of social performance measurement

The components in the above diagram provide a framework for NGOs to measure financial effectiveness as well as the non-financial output, outcome and impact of their social interventions.

Driven by the pressure to demonstrate accountability, researchers in the area of performance measures offer various reasons for NGOs to provide information on their performance, such as justifying their social initiatives to relevant stakeholders, providing evidence on management effectiveness in managing the funds for social purposes and reporting the ethical and responsible management of funds in the interest of the public by tax-exempted NGOs. The common contention in literature is that performance measurement facilitates decision-making made by relevant stakeholders (LeRoux & Wright, 2010). Given the current challenges resulting from the COVID-19 pandemic, NGOs face a very competitive funding environment. As such, impact measurement will provide the much needed foundation for ensuring that stakeholder interest are met and limited resources are optimised in impactful socio-economic initiatives.

Overall, the body of literature on NGO accountability supports the notion that accountability enhances the building of trust in the non-profit sector (Masruki, Hussainey & Aly, 2018). The current context of austerity and a competitive funding environment has added an extra impetus for NGOs to demonstrate their impact as funders seek out their services and
determine which NGO provides the most value for money. However, there is lack of empirical evidence in Malaysia on the capability of NGOs to measure and evaluate the impact of their initiatives. In fact, there is to date very little attempt by regulators of Malaysian NGOs to encourage this culture of measuring and reporting impact. The proposed model in this paper is an attempt to fill a real-world gap to create an ecosystem where NGOs, their funders and regulators collectively work towards sustainable partnerships in enhancing sustainable national recovery initiatives post COVID-19. The following section provides a simulation of the propose collaborative model capitalising on digitalisation to enhance the effective delivery of sustainable socio-economic initiatives funded by zakat fund.

**Development of the Digitalized Collaborative Zakat Management System**

The development of the system is based on the principle that NGOs with good governance practice and capability will be able to deliver the desired outcome and impact from the initiatives carried out by the NGOs. Following this principle, the first step is to identify the main components of system based on past literatures (e.g. Cordery & Sinclair, 2013, Ebrahim & Rangan, 2014 and Hutton, 2018). Based on the literature search, the following main components are identified:

(i) governance structure,
(ii) capability to deliver initiatives effectively and
(iii) clarity of targeted socio-economic impact.

The next step is to identify the list of items to be included under each of the above components that is relevant to the NGOs in Malaysia. This is done by semi structured interviews with selected NGOs registered under Registry of Societies (ROS) and Companies Commission of Malaysia (CCM) as well as officers in charge from regulatory authorities in ROS, CCM and department in charge of NGOs listed by MAIS.

The above step is followed by a content analysis of annual reports by NGOs and other relevant documents used by NGOs to report their initiatives. Subsequently, the list of items identified in the above three main components are further refined based on related projects for impact assessment of social initiatives carried out by the research team. For example, an outcome based financing project for Agensi Inovasi Malaysia and factors influencing corporate zakat payment for PPZ-MAIWP.

Once the content for the system has been refined, it is ready for the digitalisation process. This stage is currently in progress with one of the regulatory authorities in Malaysia. The system will allow the regulator to identify the appropriate pool of NGOs to deliver the initiatives identified by the regulator. It will also serve as a communication mechanism between the regulator and the NGOs in formulating the desired outcome and impact for the identified initiatives collectively. Selected NGOs will then use the system to report periodically to the regulators on the work in progress. This will allow more effective monitoring of the initiatives and more importantly facilitation by the regulator to the NGOs in overcoming certain challenges to achieve the agreed upon outcome and impact. Overall, the aim of the digitalised system is to facilitate NGOs to deliver social initiatives effectively that will benefit the targeted beneficiaries.

**Simulation of Digitalized Collaborative Zakat Management System**

This study proposes a digitalised model for collaborative zakat management system as a mechanism to develop trust and foster sustained network among the stakeholders. Consequently, this will lead to optimum mobilisation of scarce resources by the relevant collaborators in enhancing the delivery of sustainable socio-economic initiatives to the beneficiaries. This model is presented in Figure 2 below.
The operationalisation of the model is explained based on the following steps.

**Step 1**: PPZ-MAIWP will identify the socio-economic initiatives that are crucial in complementing the national economic recovery initiatives by the government. An important consideration at this point is to clarify the operational mission, specify the set of activities to address that mission (scope), identify the target size of the problem (scale) and the desired outcome and impact based on these initiatives. These will subsequently facilitate PPZ-MAIWP to develop appropriate measurement metrics in partnership with the subsequent selected operating organizations. It will also allow PPZ-MAIWP to use the measurement metrics during the programme design and implementation in order to get real-time feedback for improving the desired outcome and impact. This approach is in contrast to the evaluation of outcome and impact after implementing the social initiatives where managing risks of the project can no longer be done.

**Step 2**: Selection of NGOs to deliver the socio-economic initiatives. This study proposes three main criteria in optimising the desired outcome and impact: (i) governance structure, (ii) capability to deliver initiatives effectively and (iii) clarity of targeted socio-economic impact. These criteria are based on the principle that NGOs with good governance practice and capability to deliver the desired outcome and impact will be shortlisted based on the total score achieved. These criteria are developed based on extensive research done.
by the authors in the area as explained above. To adapt to the current digitalisation promotion in the new normal, the research team then developed this into a system that will allow PPZ-MAIWP to screen and shortlist potential collaborators among interested NGOs in Malaysia in a more timely and objective manner. Interested NGOs can login to the system to be shortlisted by PPZ-MAIWP. Extracts from the system are presented below.
Step 3: Monitoring socio-economic initiatives.
Once the NGOs are selected, it is important to monitor the progress of the initiatives. At this stage, PPZ-MAIWP and the NGOs have collectively agreed on the desired outcome and impact as well as the required interventions to achieve these within the specified period. NGOs have the responsibility to report on a consistent basis to PPZ-MAIWP on the progress of the initiatives based on the agreed upon milestone, outcome and impact. Using the proposed collaborative model in this paper, NGOs are facilitated to provide the relevant reports to the funder and the funder can also build the appropriate monitoring and learning systems to enable mid-course correction. This in turn can enhance effective and sustainable deliverables to the beneficiaries.

The above simulation draws attention on the usefulness of an impact-focused funding model that can facilitate PPZ-MAIWP to think more strategically about the different organizations and programs they fund so that their collective investment can achieve more systemic impacts. In addition, it also provides a mechanism to develop and foster sustained network relationships between PPZ-MAIWP and NGOs as well as other collaborators.

CONCLUSION
Countries of the world are moving from managing the COVID-19 crisis to managing the recovery and reopening of their economies. In Malaysia, the government has launched various initiatives with the main aim of empowering people, propelling businesses and stimulating the economy. However, the socio-economic shock of the COVID-19 pandemic continues to be felt, and governments cannot address the enormous challenge of reviving their economies unless there are engagement and collaboration with stakeholders. Zakat institutions are well-positioned to play a significant role as collaborators in Malaysia’s post-COVID economic transformation initiative.

Taking into account the need to adapt to the major shifts in many aspects of the pre-pandemic COVID 19 way of doing things, particularly the adoption of digital channels as the
new normal, this paper proposes a model for the digitalization of a collaborative zakat management system to be adapted by PPZ-MAIWP. The model provides a framework for understanding the capabilities required for complementing government-led initiatives geared towards socio-economic impact. Furthermore, the digital model should also allow zakat institutions to make efficient decisions for a remote workplace environment. The model could serve to inform PPZ’s risk management process which in turn enhances the effective delivery of sustainable empowerment initiatives funded by zakat funds. It can also be an important mechanism to facilitate the timely reporting of socio-economic impact which is crucial for enhancing stakeholder engagement and gaining trust. In summary, the new normal provides substantial opportunities to alleviate the long-overdue good governance practices in the social sector.

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