

An analysis of zakat disclosure in Islamic banks

Zakat
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Abstract

Purpose – This paper aims to investigate the zakat disclosure of Islamic banks at the global level. It is important for depositors and shareholders of Islamic banks to know whether the bank is paying zakat on their behalf or not. Additionally, disclosing the calculation method used is also necessary to eliminate uncertainties resulting from ambiguous reporting that can mislead the stakeholders. This issue becomes more obvious when considering that depositors and shareholders may have different accounts with different Islamic banks, which makes it quite confusing to have multiple ways of zakat calculation or different approaches on who is the party that pays it. This study analyzes the current practices across 13 countries and recommends best practices.

Design/methodology/approach – The objective of the paper objective is achieved through analyzing the annual reports of 34 Islamic banks in 13 countries for the years 2014 and 2019. It further quantifies the zakat disclosure by constructing a zakat disclosure index. This index considers the disclosure of four major constituents covering the amount and the responsibility for payment, the calculation method, the involvement of the Shariah board and the zakat duty on investment account holders. For further robustness, this study is further supported by content analysis measures using the zakat word count in annual reports.

Findings – The results indicate a major issue in zakat disclosure. The overall average of disclosure index is low. Most of the banks disclose limited information about zakat, such as the amount and the responsibility for payment, in their annual reports. Less than 40% of the examined banks disclose information about the role of the Shariah board in zakat calculation, and a very limited number of banks (9%) are found to disclose enough details about the zakat calculation method. Furthermore, none of the examined banks mentions the zakat due for the investment accounts. Overall, zakat disclosure of most of the banks, whether following Accounting and Auditing Organization for Islamic Financial Institutions or otherwise, are found to be not up to the expected best practices.

Research limitations/implications – Among the limitations of this study is the sole dependence on annual reports of Islamic banks without considering other means that banks might be using to communicate zakat-related matters to stakeholders. Examples of such means include a website, social media and other direct or indirect marketing materials. Additionally, the results of this study shall not be overgeneralized regarding differences between countries because the sample does not include all Islamic banks in the selected country. Future research may use the proposed zakat disclosure index on a country-specific data sample.

Practical implications – The findings have significant implications as they raise a serious concern regarding the sufficiency of the Islamic banks' disclosure about a core area of their responsibility, that is, the zakat. The index developed can be a tentative measure of zakat disclosure transparency pending further review. The result further suggests looking at the composition of members of Shariah boards to include at least one member with a sound accounting background. Zakat is a religious duty; therefore, a perceived lack of transparency on the amount, method of calculation and how the zakat is paid may affect the future injection of capital into Islamic banks.



Originality/value – An important contribution of this paper lies in the fact that the collected data is not provided in any available database. Rather, it is manually captured from the individual annual reports of reviewed Islamic banks. Further, this paper proposes an index to measure the zakat disclosure at bank and country levels.

Keywords Islamic banks, Zakat, AAIOFI, Zakat calculation, Zakat disclosure, Zakat index

Paper type Research paper

1. Introduction

Zakat is one of the five pillars of Islam. It is a compulsory levy upon individual Muslims who fulfill a certain set of conditions. With the emergence of corporations with independent legal status than that of their owners, scholars discussed whether such legal entities are also liable to pay zakat or not. Scholars are in agreement that corporates are liable for zakat, albeit they differ in the opinion as to how to calculate and whether zakat is due on the legal entity (the company itself) or on its shareholders (natural persons who own the company).

According to [Rahman \(2015\)](#), there are two major opinions regarding the zakat on shares. The first opinion, promoted by the eminent scholars Muhammad Abu Zahrah, 'Abd al Rahman Hasan and Abd al-Wahhab Khallaf, hold that shareholders realize capital gain by trading the shares like any other business merchandise. As such, all tradable shares, irrespective of the types of companies, are considered tradable goods ('urudh al-tijarah) in the hands of individual investors (Islahi and Obaidullah). Similarly, [Al-Zuhaili \(1987\)](#) argued that the purpose of owning shares is one. It is gaining profits from trading (ittijar wa istirbah). Therefore, these shares are zakatable similar to commercial goods. He concluded that zakat on shares is 2.5% from their market value plus the dividends at the end of each year, without taking into account the purpose of owning the shares.

According to the second opinion, investments in shares are treated like farming lands and are exempt from zakat. If an investor has purchased the shares with the intention of long-term investment to benefit from the generated income, then the income becomes zakatable, not the value of the shares. The grand Mufti Taqi [Usmani \(2023\)](#) agrees that buying shares for long-term investment does not render these shares to be treated as goods. Instead, he argued that the buyer, in this case, should only pay zakat on the part of the company assets that are zakatable. For instance, fixed assets will be excluded. Furthermore, if the shares are bought for trading, then such shares are considered as commercial goods, and hence, zakat will be due on their entire value. This opinion was adopted later by the OIC Fiqh Academy in 1988, the Kuwait Zakat Fund adopted in 2009 and AAIOFI standards.

Departing from the mentioned above two major opinions, [Al-Qaradawi \(1984\)](#) argued that zakat on shares depends on the type of the company. There is no zakat on the shares of industrial or semi-industrial companies but rather on their revenues at a rate of 10%, while shares of commercial companies should be zakatable according to their market value plus the profits and excluding the fixed assets. [Al-Kahf \(1991\)](#) strongly disagrees with exempting the fixed assets from zakatable funds as it renders many rich entities outside the zakat scope while farmers pay 5%–10% as zakat. Accordingly, the author supports treating the shares of all types of companies as commercial goods and paying 2.5% from the shares' profits.

The OIC Fiqh Academy, in its resolution number 28 issued in 1988, held that zakat is due on natural persons. Hence, it is initially the responsibility of the shareholders. Still, companies may pay it on their behalf in certain cases. Namely, the obligation of paying zakat by the company arises in four different scenarios. First, if the company's Article of Association mentions that. Second, if a decision for such delegation is issued by the General

Assembly. Third, if the government requires companies to pay zakat themselves. Fourth, if a shareholder delegates the company to pay his zakat dues.

Additionally, if the company is to pay zakat, it shall do so just as a natural person does. In other words, the company considers the equities of the shareholders as a single fund. Therefore, it calculates the zakat according to the zakatable asset class; *niṣāb* (minimum threshold), the zakatable amount and other considerations for the zakat of a natural person (OIC Fiqh Academy, resolution 28 (3/4)1, 1988). As such, if the company is to pay zakat, it shall have clear criteria and adequate analysis of its assets to classify them into zakatable and non-zakatable assets. Debt also has to be analyzed and classified to calculate the zakat. While discussing the various opinions regarding zakat calculation is out of the scope of this paper, it is important to mention that such calculation often requires information beyond the published financial statements. Therefore, some jurisdictions, such as Kuwait, oblige public listed companies to calculate and publish the payable zakat per share (MOF, 2006). It is also important to mention that although payment of zakat is recognized as a tax-deductible item in some countries like Malaysia, it is not considered so in most Muslim countries. This further affects the importance of its calculation and disclosure across countries.

As far as Islamic financial institutions are concerned, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has proposed two different methods for calculating the zakat of the financial institutions. Theoretically, both methods would yield the same zakat amount. Nonetheless, it is believed that many Islamic banks adopt other methods in their zakat calculations which result in large differences in the amount of zakat payable. This includes calculating the zakat based on the income statement rather than on the balance sheet.

AAOIFI standards are in line with the OIC Fiqh Academy's resolution mentioned above. AAOIFI Shariah standard No. 35 states that Islamic financial institutions (IFIs) should be committed to pay zakat if it is stipulated in the Article of Association, decided by the general assembly or enforced by law (AAOIFI, 2015). Otherwise, zakat is due on shareholders and investment account holders. For the latter, the IFI shall indicate the amount of zakat payable per share or per a given balance of an investment Account. As for the calculation, AAOIFI Shariah standard No. 35 and financial accounting standard No. 9 (FAS 9) provide some guidelines on the items to be included in the zakat base. That is, the amount subject to zakat. It further provides two methods for the calculation of the zakat base. Both methods are claimed to provide the same result if the items are classified and valued consistently. These two methods are the net assets method and the net investment assets method. However, since zakat is regulated under tax and zakat laws in some countries, some banks are expected to follow other methods. A recent research published by the International Shari'ah Research Academy for Islamic Finance documented few other methods that are used in Malaysia (Abojeib *et al.*, 2019). Nevertheless, there is no available information in the literature on the number of methods followed by the Islamic banks around the world.

In relation to the topic of disclosure, FAS 9 stipulates that IFIs which are mandated to pay zakat should produce a statement that illustrates the sources and the uses of the zakat fund. Furthermore, the disclosure requirements by FAS 9 could be classified into four aspects in relation to zakat disclosure. FAS 9 obligates the banks to include the following information in the notes accompanying the financial statements:

- *Amount of zakat:* Islamic banks shall report the amount of paid zakat just like any other financial expense. This is in line with the general disclosure requirements in FAS 1. Furthermore, Paragraph 16 of FAS 9 states that the notes accompanying the financial statements shall include the amount of zakat that is due per share if the bank does not pay zakat.

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- *Zakat calculation method*: Paragraph 13 of FAS 9 states that the method used for determining the zakat base, as well as the items included in it, shall be disclosed. In addition, Paragraph 15 requires the disclosure of whether or not the Islamic bank, as a holding company, pays its share of zakat obligations on behalf of its subsidiaries.
 - *Ruling of the Shariah supervisory board*: While the AAOIFI Shariah standard No. 35 on zakat requires the endorsement of Shariah supervisory board (SSB) for the calculation of zakat, FAS 9 makes it obligatory to include the ruling of SSB on issues related to zakat that are not included in the said standard as well as any restriction imposed on determining the zakat base (Paragraphs 14 and 19).
 - *Zakat on investment account holders*: FAS 9 further requires in Paragraph 17 to specify the “amount of zakat that is due from the equity of investment account holders” and “whether or not the Islamic bank collects and pays zakat on behalf of their holders of investment accounts and other accounts” (Paragraph 18).

Generally speaking, banks’ stakeholders would expect to have some information about each of these aspects even if the bank is not following AAOIFI standards. This is because disclosure is not simply a matter of compliance with some standards. It is rather a tool to enhance the stakeholders’ trust in the institution. Disclosure and transparency are essential elements in increasing trust in the entire zakat management process. This is also confirmed by the Islamic Financial Services Board (IFSB) in its standard No. 22, titled “Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services.” In this standard, IFSB requires Islamic financial institutions to provide disclosures detailing annual zakat contributions, method(s) used in determining their zakat base and the recipients of zakat contributions (IFSB, 2018). Moreover, IFSB standard No. 15 mentions that Islamic financial institutions shall have a framework and mechanism in place for the recognition and measurement of zakat obligations and shall disclose the amount of such obligations in its balance sheet (IFSB, 2013).

Accordingly, this paper investigates the zakat disclosure of Islamic banks across countries while focusing on these aspects, among others, regardless of whether such banks follow AAOIFI or not. This also enables analyzing whether the compliance with AAOIFI would enhance zakat disclosure or not. Overall, the paper sheds light on zakat disclosure of Islamic banks by providing a qualitative analysis of primary resource data. It further tries to quantify the disclosure by building a simple zakat disclosure index to facilitate the comparison between the different jurisdictions and assess the trend.

This paper contributes to the literature in two main areas. First, it provides an assessment of the current banking practices of zakat discourse across different jurisdictions while highlighting best practices. Second, it proposes an index to measure the zakat disclosure that can be adopted or further developed by regulators and researchers.

2. Literature review

Despite the importance of zakat and the large portion of the literature on zakat-related matters, the bulk of studies concentrate on Shariah issues related to the calculation of zakat. These studies mostly cover zakat on businesses, while less are relevant to IFIs. Among the studies concerning IFIs, very few tackle the topic of zakat disclosure. It is also noted that most of the related studies were done on the banks in Malaysia, which underpins the importance of conducting a study that covers many other jurisdictions for a better understanding of the issue.

Among the most relevant studies, though might be considered outdated, is [Maali et al. \(2006\)](#), which investigated the social reporting by Islamic banks, including zakat disclosure.

The authors constructed a social disclosure index. The sample covered 29 Islamic banks, of which ten are required by law to pay zakat. For the banks required to pay zakat, the analysis of zakat disclosure included three items: statement of sources and uses of zakat, the balances of the zakat fund including reasons for nondistribution and Sharia Board's attestation regarding the computation and distribution of the funds. While for banks that are not required to pay zakat, the authors analyzed the disclosure by looking into two items only: the amount due on shares and on deposits and the Sharia Board's opinion regarding the validity of computation. By analyzing the number of sentences mentioned in the annual reports, the authors found that 90% of banks required to pay zakat provide some disclosure with an average of 13.3 sentences, while only 26% of the banks that don't have to pay zakat provide disclosure about the zakat with an average of 3.8 sentences. Although the study provides some overview on zakat disclosure, it does not provide enough insight on the matter as the scope of the analysis was relatively narrow. This is understandable as zakat disclosure was not the objective but rather the social disclosure in which zakat disclosure represents only part of it.

Albeit not being the main topic of the study, [Abdullah et al. \(2013\)](#) examined the zakat disclosure in both Malaysian and Indonesian Islamic banks. The paper mainly tackles the issue of the Shariah governance system by focusing on the Shariah supervisory boards of the sampled Islamic banks. The study used cross-sectional data covering annual reports of the year 2019 of 19 Islamic banks in Malaysia and 4 Islamic banks in Indonesia. The results indicated that different Islamic banks depend on different calculation methods. The reported zakat calculation methods ranged between the Net Assets Method, the Net Invested Funds Method, the Profit Method, the Opening Reserve Method, in addition to the Adjusted Growth Method. Islamic banks using methods other than those proposed by AAOIFI and other regulators and agencies were reported to have not given any justification behind their method of choice. [Abdullah et al. \(2013\)](#) suggested that the weak levels of zakat disclosure might be attributed to the current accounting and reporting standards which are said to be unsuitable for zakat transparency. Among the drawbacks of this study was the apparent overdependence on counting words, sentences and pages as a means of judgment since it might not necessarily yield an objective reflection of the importance of zakat to the bank's management. Other limitations also cover the limited sample size and the narrow scope of focus.

In addition to the above-mentioned research, few other studies concentrating on the Malaysian banking market are available. [Adnan and Abu Bakar \(2009\)](#) examined the accounting treatment for zakat based on relevant local and international guidelines and standards. The authors concluded that the local accounting standard of Malaysian Accounting Standards Board titled Accounting for zakat on Business Technical Release 1 (TRi-1) requires less complex disclosure as compared to AAOIF's FAS 9. However, both standards provide good suggestions for zakat calculation and disclosure, while the issue seems on the practice. Most corporates, including banks, view zakat merely as an expense and provide no elaborative disclosure as required by the existing standards ([Adnan and Abu Bakar, 2009](#)).

While the paper of [Adnan and Abu Bakar \(2009\)](#) was theoretical in nature, [Abd Samad and Said \(2016\)](#) examined the zakat disclosure practices of 16 Islamic banks in Malaysia in a cross-sectional study that covers the year 2014 only. The authors constructed a zakat index that further adds to the index suggested by [Maali et al. \(2006\)](#) other factors such as the zakat paid to financial institutions, the zakat institution's attestation on zakat computations as well as the approval of the Shariah Supervisory Board. The study concluded that banks remarkably differ in their disclosure. Similarly, [Zaaba and Ariffin \(2018\)](#) documented the

inconsistency in zakat disclosure among the Islamic banks in Malaysia. According to the study, only 10 out of 15 banks disclosed the amount paid for zakat in their annual reports. Furthermore, the study reported that annual reports provided little information about zakat and recommended that the regulators should issue guidelines to achieve standardization across Islamic banks.

Relatedly, [Abbas *et al.* \(2018\)](#) also confirmed that financial statements do not provide enough details of zakat computation. The study, which covered the 16 Islamic banks in Malaysia in the years between 2013 and 2017, confirmed that most of the Islamic bank reports that follow one of the two methods recommended by the religious authority of Islamic affairs in Malaysia [i.e. Jabatan Kemajuan Islam Malaysia (Department of Islamic Development Malaysia)]. Yet, no details of zakat computation were illustrated. This is contrary to tax calculations, where all related information is disclosed within the notes of the financial statements. Using the publicly available information, the authors also reported that the actual zakat paid was less than the zakat payable amount calculated based on both methods. The huge variations in the zakat amount highlight the importance of unified disclosure guidelines for Islamic banks. Similarly, [Badarulzaman \(2016\)](#) offered an explanatory study on the zakat practices in Islamic banks in Malaysia from a legal perspective. The authors argued that the zakat calculation varies across banks because the rulings of the Shariah advisory boards differ. Despite the fact that there are guiding principles from the authorities, Shariah advisory boards are not mandated to strictly follow the guidelines. Furthermore, [Ariffin and Osman \(2022\)](#) examined the zakat calculation methods and disclosures of Islamic banks in Malaysia. The authors argued that the growth method seems to be the most common zakat calculation method.

Although the work of [Adnan and Abu Bakar \(2009\)](#), [Badarulzaman \(2016\)](#), [Zaaba and Ariffin \(2018\)](#) and [Abbas *et al.* \(2018\)](#) provide useful insights on the status of zakat disclosure, the papers are limited in terms of the scope of focus due to focusing only on Malaysian Islamic banks. The mentioned studies also miss reporting whether the Islamic banking sector is experiencing an upward trend or downward trend in terms of zakat disclosure. Another area this study contributes to.

3. Data and methodology

3.1 Sample selection

To assess zakat disclosure, a random sample of 34 Islamic commercial banks has been investigated. In addition, to evaluate whether the Islamic banks are moving toward further disclosure, two years are chosen (2014 and 2019) [1]. It is important to mention that the sample selection was dependent on the availability and accessibility of the data required. Data shall be balanced where only banks with available annual reports for both years are considered. Banks shall also cover different types (i.e. full-fledged and subsidiaries) operating under various jurisdictions. The sampled banks are selected from 13 countries, including seven countries that follow AAOIFI standards and six countries that do not. The inclusion of countries that do not follow AAOIFI is important to assess whether the AAOIFI standard has promoted better disclosure or not. Additionally, the sample includes 27 full-fledged Islamic banks and seven Islamic subsidiaries to conventional banks. Investigating each type is important to assess whether there is any indication of significant differences in the disclosure between the two types. Theoretically, a full-fledged Islamic bank is expected to have better disclosure practices. However, this entails a statistical test to check its validity. [Table 1](#) represents the details of the data sample.

Zakat disclosure in Islamic banks

Following AAOIFI standards	Country	Full-fledge Islamic banks	No. of banks Subsidiary of conventional banks	Total	
No	Bangladesh	1	—	1	
	Egypt	1	—	1	
	Kuwait	2	—	2	
	Malaysia	3	6	9	
	Saudi Arabia	3	1	4	
	Turkey	2	—	2	
Yes	Bahrain	2	—	2	
	Jordan	3	—	3	
	Pakistan	4	—	4	
	Qatar	2	—	2	
	Sudan	1	—	1	
	Syria	2	—	2	
	UAE	1	—	1	
	<i>Grand total</i>		27	7	34

Table 1.
Breakdown of the data sample by country

Source: AAOIFI's official website

3.2 Data

The data is extracted directly from the annual reports, including the financial statements of the selected banks. These reports are then analyzed manually based on a predetermined set of parameters to assess the level of disclosure. We further extracted the actual zakat amounts paid by the banks and some balance sheet items, whenever available, to help in understanding the significance of the amounts as compared to the size of those banks. Furthermore, additional information was collected with regard to zakat distributions. For instance, whether the bank distributes zakat amount directly or channels it through zakat institutions. That said, since these additional aspects are applied to banks that distribute the zakat payment only, they are not included in constructing the proposed index. Rather, they were used to provide further insights and help in the qualitative analysis.

3.3 Theoretical foundation

Our study rests on the theory of trust, which calls for the necessity of transparency and disclosure. Trust is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action necessary to the party (Schoorman *et al.*, 2007). With the Theory of Trust framework, trust is seen as an essential factor in all market transactions and institutions to function correctly. Further, trust is also regarded as a necessity for the social system (Arrow, 1974). It is observed to reduce conflicts (Zaheer *et al.*, 1998), improve individual performances (McAllister, 1995) and promote interorganizational cooperation (Ring and Vandevan, 1992).

According to Bhati (2015), trust has emerged as an important issue in business accountability because society has become critical about business values in recent years. The role of business and commerce in society is being evaluated critically, and societies are becoming much more concerned about the unethical dimensions of businesses than at any time before in history. Yet, there is a considerable lack of transparency in financial markets, making the integrity and honesty institutions very doubtful. Further, the confidence in banks has declined after the financial crises (Uslaner, 2010; Bahti, 2015).

Within the zakat context, the lack of trust is a major factor in rendering zakat payment at less optimal levels compared to the potentials as demonstrated in the literature. Among the

studies that linked trust and zakat payment were [Mubarak and Fanani \(2014\)](#) and [Martono *et al.* \(2019\)](#), which reported that one of the factors that influence the low realization of zakat collection is trust in the institutions appointed to such collection. The trust felt by those Muslim members of the community who are obliged to pay zakat is a strong determinant of the intention to pay and paying behavior. Similarly, [Liana \(2018\)](#) demonstrated that trust is a factor that can influence zakat-paying behavior. Furthermore, it is shown by [Bariyah \(2010\)](#) that the lack of information related to zakat distribution has changed the public trust in zakat. Relatedly, [Martono *et al.* \(2019\)](#) argue that if an appointed zakat institution can demonstrate professionalism in managing zakat funds, the community will increasingly trust the institution. Consequently, the obligation to pay zakat through the appointed collection institution will be fulfilled. Additionally, other empirical findings reported by [Sidiq \(2015\)](#), [Fakhrudin \(2016\)](#), [Yunus \(2016\)](#) and [Satrio and Siswanto \(2016\)](#) provide evidence that trust can be a significant predictor of zakat-paying behavior.

In fact, disclosure is vital for Islamic financial institutions to show their compliance with Shariah. [Baydoun and Willett \(1997\)](#) suggest that the presence of the Islamic religion as a cultural variable affects the manner in which accounting information should be disclosed. Accordingly, the authors suggested a modification of the standard financial statements to better serve the needs of users. Within the same context, [Maali *et al.* \(2006\)](#) argue that the duty to disclose the truth is a critical issue in the Islamic context. This duty applies to businesses as much as to individuals. Accordingly, Islamic businesses, including Islamic banks, should disclose all information necessary to advise the Ummah (Islamic community) about their operations. The concept of disclosure is thus related to the concept of accountability. It is even argued that Islamic banks should be more responsible in their behavior toward stakeholders as compared to their conventional peers; and hence, Islamic banks should be reporting on their responsibility appropriately ([Haniffa and Hudaib, 2007](#)). Such reporting and disclosure shall, without any doubt, cover zakat.

Furthermore, the disclosure of zakat in the financial statements could be seen as important, from Shariah's perspective, as the requirement to record debts among Muslims is clearly mentioned in the Quran. As such, Islamic banks, being Shariah-compliant companies, shall ensure incorporating zakat reporting in their financial statements and annual reports. This is not only to gain the trust of the stakeholders but also to fulfill their responsibilities before Allah (SWT) in protecting the rights of the zakat beneficiaries. This is because disclosure would provide some indirect control mechanism for companies in deterring fraud activities and preventing unintentional errors. Moreover, disclosing zakat transactions provides clear awareness to Muslim stakeholders regarding the importance of paying zakat ([Rohaya *et al.*, 2011](#)).

In line with the above, AAOIFI and IFSB issued several standards covering zakat reporting and disclosure. Several important initiatives have also been made by the supervisory authorities around the world to regulate zakat and set a minimum requirement for zakat disclosure. Among these initiatives is the construction of Zakat Core Principles (ZCP) in 2016 by experts from the National Board of Zakat of the Republic of Indonesia, the Central Bank of Indonesia and representatives of selected countries that operate zakat system and observers. The ZCPs represent the minimum regulatory standards to be adopted by zakat supervising entities to strengthen zakat management. These principles adapt the existing internationally recognized frameworks of the Basel Core Principles (BCPs), which are widely accepted and applied by banks around the globe. While BCPs represent the minimum standards for sound prudential regulation and supervision of mainstream banks and banking systems, some necessary adjustments have been made to ZCPs to cover zakat operations aspects that do not exist in the conventional system ([Beik *et al.*, 2016](#)).

ZCPs include 18 principles covering six dimensions, namely, legal foundation, zakat supervision, zakat governance, intermediary function, risk management and Shariah governance. Overall, the issued principles stress so much on governance and disclosure. ZCPs further make a link between Shariah governance and disclosure, considering audit, disclosure and transparency aspects essential components to ensure the Shariah compliance of the operational zakat activities. The consultative document on ZCPs further mentions that disclosure and transparency must be upheld to retain fair judgment from the public with regard to zakat operational aspects. Accordingly, zakat institutions shall regularly publish consolidated information that is easily accessible and fairly reflects their financial condition and performance. While ZCPs are mainly concerned with zakat institutions rather than the banks, our constructed disclosure index benefits much from the ZCPs framework. Our constructed disclosure index can be a useful tool for zakat regulatory and supervisory authorities in their mandate of monitoring and promoting zakat collection and distribution in the light of ZCPs. Particularly, the proposed index can be used as an assessment tool for zakat discourse within the Islamic financial institutions as an endeavor to promote transparency and trust in these institutions.

3.4 Proposed disclosure index and its benchmark

For constructing disclosure indices, the accounting and social reporting literature is rich with different approaches. The content-analysis approach is the most common approach for studies related to corporate social responsibility disclosure indices. Through a content-analysis approach, specific items are preidentified and relevant data disclosed is evaluated to gauge the level of social responsibility engagement. For studies on Islamic banks, items often include zakat disclosure items, among others [See, for instance, [Maali et al. \(2006\)](#), [Haniiffa and Hudaib \(2007\)](#) and [Hassan and Harahap \(2010\)](#)]. The majority assign different weights to different items according to the perceived relative importance of each item. The challenge is often in finding a solid and justifiable basis for assigning weights. Assigning different weights cannot be fully objective. Some arbitrariness is clearly inherent in the use of any weighted index ([Barrett, 1997](#)). Nevertheless, a good methodology shall have some benchmarks to ensure that the index is not biased.

In this paper, we adopt a content-analysis approach and benchmark our proposed index to the key requirements of AAOIFI. This is in line with previous studies, including [Maali et al. \(2006\)](#), [Hassan and Harahap \(2010\)](#) and [Abd Samad and Said \(2016\)](#). However, while the mentioned studies investigate the social responsibility disclosure in general, in which zakat disclosure is only one component, they largely considered a binary score for limited items in relation to zakat disclosure. In this study, having a focused objective on measuring the zakat disclosure, we extend the scope to cover AAOIFI requirements regarding zakat disclosure in a more detailed way. We categorize AAOIFI relevant requirements in the four following aspects:

- (1) zakat amount and responsibility for payment;
- (2) the applied zakat calculation method;
- (3) the approval of the Shariah board on zakat calculation; and
- (4) zakat duties on investment account holders.

We further develop a few subitems under each aspect to get more insight into the disclosures of the different banks and to use them as constituents of the zakat disclosure index.

Furthermore, in this study, we are not primarily investigating compliance with standards; rather, the main concern is whether Islamic banks disclose relevant information that is enough to provide the stakeholders with a clear and satisfactory understanding of

their zakat duties. Therefore, some adjustments are made within each aspect to widen the research scope by covering Islamic banks that do not follow AAOIFI standards as well. For instance, we give a full mark for the bank, which provides details on the calculation, despite whether the calculation is made with reference to the AAOIFI method of calculation or otherwise.

Equal weight is given to each of the four mentioned aspects. However, some weights are given to the different subitems within each aspect. Such weights are given based on the perceived importance, as shall be discussed below. Based on that, the index of zakat disclosure has been constructed as follows:

- *Disclosure of the zakat amount and the responsibility for payment:* This includes the disclosure of whether the zakat payment is paid by the bank instead of the shareholders or not. The ideal practice is that the bank shall disclose the amount of zakat and who is responsible for the payment. Even if the bank has zero zakat due for any reason, shareholders shall be informed about such a situation. Accordingly, we assign a maximum score of 2.5 if the amount is mentioned and the payment responsibility is clearly indicated. A score of 2.5 is given based on the availability of the two items. Whereas a score of 1.5 is assigned for mentioning the zakat amount (regardless of whether as a lump sum or per share). The score of 1.5 is an arbitrary value assigned to give higher weightage to disclosing the amount as compared to disclosing the responsibility. This is because the latter's information could be inferred indirectly. For instance, if the amount is calculated and disclosed per share, it is understood that the shareholders shall pay it. However, since zakat is a religious commitment that needs to be fulfilled, clarity is still needed. As such, a score of 1 is assigned for clearly indicating whether the bank pays the zakat or if it is the responsibility of the shareholders. Finally, a score of zero points will be given to banks that do not mention the zakat amount and the party responsible for paying it.
- *Disclosure of the zakat calculation method:* This parameter assesses whether the Islamic bank discloses the calculation method applied to determine the zakat amount. Accordingly, we assign a full score of 2.5 for banks providing a zakat calculation statement or those banks which disclose the methodology used with adequate details. Sometimes, disclosing the method name with reference to certain well-established clear guidelines or standards (such as AAOIFI net asset method) may provide the reader with a fair idea on the basis of calculation. As such, a full score is also given for the latter practice. Similarly, if the methodology is explained fairly, we assign a value of 1.5. A score of 1 point is assigned if the method is provided with ambiguity. An example of that would be if the method name was mentioned without any reference or further details. Another example is if it was mentioned that zakat is paid based on the applicable laws without specifying the exact laws. Finally, zero is assigned if there is no mentioning of the zakat calculation method whatsoever.
- *Disclosure of the involvement of the Shariah board on zakat calculation:* This examines whether there is any disclosure regarding the involvement of the Shariah committee of the particular Islamic bank in the verification of the zakat calculation. Accordingly, we assign the maximum value of 2.5 if the approval of the Shariah committee (or board as the case might be) is clearly mentioned in the annual report, while we assign zero if there is no mention of any role of the Shariah committee in verifying the zakat methodology and/or calculation. A value of 1 is given if the

annual report mentions that the Shariah committee was consulted on zakat matters without clarifying whether the committee reviewed and approved the calculation and the method used or not.

- *Disclosure of zakat duty on investment account holders:* Being capital providers, investment account holders are also liable to pay zakat. As per AAOIFI, Islamic banks shall disclose the amount of zakat that is due on the investment account holders and whether the bank pays zakat on their behalf or not. The full score of 2.5 is assigned if both items (i.e. the amount payable and the responsibility of payment) are mentioned, while zero is given if both information is not mentioned. A score of 1.5 is assigned for mentioning the due zakat amount only, while a score of 1 is assigned in case the bank discloses the party responsible for the payment without mentioning the amount. This is in line with the approach followed for aspect two, in which a higher weightage is assigned to disclosing the amount as compared to disclosing the responsibility. Similar to the second aspect, the reason for this weightage here is that disclosing the amount could provide indirect information on the responsibility. For instance, disclosing the zakat amount due for each USD placed in the investment account is indirectly inferred as the payment is the responsibility of the investor, while discussing the total amount paid for investment accounts indirectly implies that the bank is taking up the responsibility of paying the zakat on investment accounts.

The construction of the zakat disclosure index is summarized in [Table 2](#) below:

While the above-mentioned aspects respond very much to AAOIFI requirements, they are also in line with IFSB standards. For instance, IFSB requires the Islamic financial institutions to report the method used in the calculation of the zakat base and the annual zakat contributions of the institutions, if any ([IFSB, 2018](#)). They are also in harmony with the ZCPs, which promote sound regulation and supervision of zakat management ([Beik et al., 2016](#)). Accordingly, we believe that our constructed index is built objectively and has a strong foundation that makes it appropriate to be used for further research and for policymakers to monitor the progress of zakat disclosure of the financial institutions.

For an alternative proxy of the constructed disclosure index, we have also performed a content analysis based on word count. Content analysis is a common method in the social reporting literature in which the number of words or sentences is used to measure the volume of disclosure ([Williams, 1999](#)). Content analysis was also followed by [Maali et al. \(2006\)](#) in analyzing the social reporting of Islamic banks, as mentioned earlier.

While [Maali et al. \(2006\)](#) used the number of sentences, we opted to use the number of words since there is no supporting theoretical underpinning to prefer the number of sentences over the number of words ([Williams, 1999](#)). The more frequent mention of the word “zakat” would generally indicate more disclosure of zakat information. However, two important limitations of this proxy shall be highlighted here. First, the word count proxy does not give insights about the type of disclosed information. It just indicates an overall interest of the management in demonstrating information about the role and engagements of the Islamic bank in zakat aspects. Second, zakat word count may indicate, at least in some cases, an explanation of a very particular point or a presentation style that does not really provide additional disclosures. For example, some banks may elaborate in their annual reports on the meaning and importance of zakat and the bank initiatives to facilitate zakat collections from the banks’ clients. This would increase the word count though it does not imply having higher disclosure. For such limitations, we consider the word count as a secondary proxy mostly for robustness checks.

Category	Maximum score	Subconstituents	Assigned score
Disclosure of the zakat amount and the responsibility for payment	2.5	Amount of zakat	1.5 points, if the amount is mentioned and zero otherwise
		Payment responsibility	1 point, if the party responsible for paying zakat is clearly mentioned and zero otherwise
Disclosure of the zakat calculation method	2.5	Name of method	1.5 points, if the name of the method is mentioned without detailed explanation or clear reference. Zero is given for not mentioning the name of a method of calculation
		Details on the method or the availability of a clear reference to it	1 point, if the calculation method is explained or a clear reference for calculation is provided
Disclosure of the involvement of the Shariah board in zakat calculation:	2.5	Shariah board's clear endorsement of zakat amount	1.5 points, if the bank reports that their Shariah board has approved the zakat amount
		Shariah board's involvement in zakat calculation	1 point, if the bank mentions any kind of involvement of the board in reviewing the zakat method and calculation. Zero is given if the bank reports no involvement whatsoever
Disclosure of zakat duty on investment account holders	2.5	Amount of zakat	1.5 points, if the amount is mentioned and zero otherwise
		Payment responsibility	1 point, if the annual report clearly mentions whether the bank or the investment accounts holders are responsible for the zakat payment

Table 2.
Construction of zakat disclosure index

Source: Table by authors

After obtaining the disclosure scores for each bank within the two assigned years, we calculated a country-level average for each of the two years. Therefore, each country has two average scores that represent the arithmetic mean of the bank scores in this particular country for the years 2014 and 2019 (or 2018 if 2019 data is not available). To examine if there is a significant difference between the means of the various groups, a simple *t*-test for the differences of means was conducted and reported. The null hypothesis of such a statistical test would be that there is no significant difference between the means of the different groups. Rejecting the null hypothesis means accepting the alternative one, which assumes that there is a significant difference between those means, and thus, progress (or decline) has occurred in the disclosure score. The acceptance or rejection of the null hypothesis depends on the *p*-value of the *t*-test and the level of confidence which can be 99%, 95% or 90% (represented in the significance level of 1%, 5% or 10%, respectively).

4. Results of the analysis

4.1 Overall analysis

Based on our manual analysis of the annual reports, the results of the constructed zakat disclosure index, as well as the robustness test of word count, are both presented in [Table 3](#). Additionally, the table further illustrates the changes in disclosure levels for each sampled

Islamic bank name	Country	Operating model	Zakat disclosure index			Zakat wordcount		
			2014	2019*	Changes in disclosure level**	2014	2019*	Changes in disclosure level**
Islamic bank Bangladesh	Bangladesh	Full-fledge	7.5	5	-	8	15	+
Faisal Islamic Egypt	Egypt	Full-fledge	6	6	NC	0	10	+
Ahli United	Kuwait	Full-fledge	4.5	4.5	NC	21	19	-
Boyan	Kuwait	Full-fledge	3.5	3.5	NC	6	10	+
AmBank Islamic	Malaysia	Subsidiary	4.5	6	+	-	-	ND
Bank Islam	Malaysia	Full-fledge	6.5	6.5	NC	31	11	NC
Bank Muamalat	Malaysia	Full-fledge	6	7	+	38	52	+
Bank Rakyat	Malaysia	Full-fledge	6	6.5	+	63	65	+
CIMB Islamic	Malaysia	Subsidiary	2	7	+	10	21	+
Hong Leong Islamic	Malaysia	Subsidiary	6	6	NC	26	30	+
Maybank Islamic	Malaysia	Subsidiary	3.5	3.5	NC	21	-	ND
Public Islamic	Malaysia	Subsidiary	6	6	NC	22	26	+
RHB Islamic	Malaysia	Subsidiary	7	4.5	-	25	29	+
Al-Ahli	Saudi Arabia	Full-fledge	3.5	3.5	NC	16	25	+
Albilad	Saudi Arabia	Full-fledge	3.5	3.5	NC	26	90	+
Alrajhi	Saudi Arabia	Full-fledge	3.5	3.5	NC	7	35	+
Alriyadh bank	Saudi Arabia	Subsidiary	3.5	3.5	NC	19	63	+
Albarakah Turkey	Turkey	Full-fledge	0	0	NC	0	1	+
Kuwait Turk	Turkey	Full-fledge	0	0	NC	0	1	+
Albarakah Bahrain	Bahrain	Full-fledge	3.5	4.5	+	10	14	+
Khaleeji Commercial bank Home	Bahrain	Full-fledge	4.5	6	+	-	36	+
Alsatwah	Jordan	Full-fledge	1	2	+	0	11	+
Islamic International Arabic	Jordan	Full-fledge	1	1	NC	3	3	+
Jordan Islamic bank	Jordan	Full-fledge	2	2	NC	12	4	-
Askari	Pakistan	Full-fledge	0	0	+	3	8	+
Bank Islami Pakistan	Pakistan	Full-fledge	0	0	NC	-	-	ND
MCB Islamic	Pakistan	Full-fledge	1	2.5	+	3	7	+
Mezzan	Pakistan	Full-fledge	0	0	NC	0	5	+
QIB	Qatar	Full-fledge	1	1	NC	26	26	NC
QIIB	Qatar	Full-fledge	1	1	NC	-	-	ND
Saudi Sudaense bank	Sudan	Full-fledge	2.5	2.5	NC	7	13	+

(continued)

Zakat disclosure in Islamic banks

Table 3.
Zakat disclosure at banks level

Table 3.

Islamic bank name	Country	Operating model	Zakat disclosure index			Zakat wordcount		
			2014	2019*	Changes in disclosure level**	2014	2019*	Changes in disclosure level**
Albarakah Syria	Syria	Full-fledge	7.5	7.5	NC	14	16	+
Syria Islamic International	Syria	Full-fledge	5	5	NC	-	-	ND
Emirates Islamic	UAE	Full-fledge	6	7.5	+	37	30	-
Cross Average			3.5	3.9	+	15	23	+

Notes: *2019 is considered for all banks except Bank Islam (Malaysia), Al-Ahli (Saudi Arabia), Saudi Sudanese bank (Sudan) and Emirates Islamic (UAE) in which 2018 was considered because the annual reports for 2019 were not yet available. **The symbols used in this column are as follows: (+) indicates an increase in disclosure level. (-) indicates a decrease in disclosure level. (NC) indicates that there is no change in disclosure level. (ND) indicates a lack of a data

Source: Table by authors

bank between the years 2014 and 2018/2019. In other words, it depicts whether the disclosure of zakat-related information has improved or not.

The proposed zakat disclosure index can be prepared on both the bank level and on the country level. The latter is calculated by taking the average score for each bank for each year for each country. Table 4 below contains the zakat disclosure index scores for each of the 16 countries under study for the years 2014 and 2018/2019, along with the disclosure status.

The table above clearly shows that the level of disclosure differs much among the countries. In our sample, the United Arab Emirates is found to have the highest level of zakat disclosure for 2019, followed by Syria and Malaysia. One of the relieving notes that can be taken from the above tables is that many countries are getting better over time in their zakat disclosure transparency. This is evident from the improved average scores between 2014 and 2018/2019 for six countries. Furthermore, the remaining countries in our sample are reported to have the same level of disclosure except for Bangladesh, which has experienced a decrease in the disclosure index. However, interpreting this finding for Bangladesh shall be made with caution because we have only one bank in our sample due to the unavailability of English-published annual reports. Therefore, it can be fairly said that based on the constructed disclosure index, an overall positive trend is noticed.

This positive trend in zakat disclosure is also generally confirmed by the word count proxy. In fact, the word count proxy suggested a stronger upward trend in disclosure. Most banks (24 banks out of 34) are reported to mention zakat more in their annual reports. The average word count for the word zakat in the annual report was found to reach 23 times in 2019 as compared to around 15 times in 2014. This indicates a significant change in the banks' management interest to disclose information about zakat and to demonstrate the bank's contribution toward zakat. Screening out the annual reports indicates that many of these words were associated with an explanation of the bank collaborations with zakat institutions, offering the banks' clients an option to pay their zakat through the bank.

Adopting AAOIFI*	Country	Zakat disclosure index for countries			Average Zakat wordcount**		
		2014	2018/19	Changes in disclosure level***	2014	2018/19	Changes in disclosure level***
No	Bangladesh	7.5	5	–	8	15	+
	Egypt	6	6	NC	0	10	+
	Kuwait	4	4	NC	13.5	14.5	+
	Malaysia	5.3	5.8	+	30.7	33.9	+
	Saudi Arabia	3.5	3.5	NC	17	53.3	+
	Turkey	0	0	NC	0	1	+
Yes	Bahrain	4	5.25	+	10	25	+
	Jordan	1.33	1.66	+	5	6	+
	Pakistan	0.25	1.88	+	2	6.7	+
	Qatar	1	1	NC	26	26	NC
	Sudan	2.5	2.5	NC	7	13	+
	Syria	6.25	6.25	NC	14	16	+
	UAE	6	7.5	+	37	30	–

Notes: **Calculated as the number of word 'zakat' divided by the number of the banks considered in the sample per country. ***The symbols used in this column are as follows: (+) indicates an increase in disclosure level. (–) indicates a decrease in disclosure level. (NC) indicates a no change in disclosure level. (ND) indicates a lack of a data

Source: *As per AAOIFI's official website

Table 4.
Zakat disclosure at
country level

Therefore, the significant increase in word count may not necessarily prove that banks are making better information, in terms of zakat calculations, available for stakeholders, though it indicates a positive trend anyway. Accordingly, to provide further insights and for a better understanding of the cross-country and trend analysis, we further group the banks based on several characteristics. This can help in investigating whether these characteristics could explain the differences in zakat disclosure among the different banks. We further test whether the variations in values between 2014 and 2018/19 are statistically different (See Table 5).

By testing, if there is a significant difference between the averages of the two groups (2014 and 2018/19), we could not reject the null hypothesis that there is no significant difference in the average of each score between 2014 and 2019 (all *p*-values were above the significance level of 10%). Therefore, from a statistical perspective, the averages of 2014 and 2018/19 are not different from each other. In other words, the positive trend that we dedicated does not statistically indicate a significant progress in the zakat disclosure index between 2014 and 2019.

To better understand the results depicted in Tables 3 and 5, we resort to testing if there is a statistical difference between the various groups using 2018/19 as the year of analysis (Table 6). First, we test the difference in the averages between countries that follow AAOIFI standards versus those which do not. Second, we apply the same test to full-fledged Islamic banks and subsidiaries. While the first test would facilitate checking whether following AAOIFI standards can be of help in improving zakat disclosure, the other would test the impact of the ownership structure of the banks on their zakat transparency levels. The following table exhibits the *t*-test results:

Item	2014				2018/19				Differences in averages	<i>p</i> -value
	Min	Max	Average	SD	Min	Max	Average	SD		
Overall	0	7.5	3.5	2.42	0	7.5	3.93	2.37	0.43	0.465
Banks following AAOIFI standards	0	7.5	2.4	2.37	0	7.5	3.17	2.56	0.77	0.818
Banks not following AAOIFI standards	0	7.5	4.37	2.14	0	7	4.53	2.06	0.16	0.402
Full-fledge Islamic banks	0	7.5	3.2	2.5	0	7.5	3.59	2.46	0.39	0.568
Subsidiaries of conventional banks	2	7	4.64	1.8	3.5	7	5.21	1.38	0.57	0.514

Source: Table by authors

Table 5. Zakat disclosure index: detailed statistics

Item	Average	2018/19	
		Differences in averages	<i>p</i> -value
Banks following AAOIFI standards	3.17	1.36	0.11
Banks not following AAOIFI standards	4.53		
Full-fledge Islamic banks	3.59	1.62	0.03**
Subsidiaries of conventional banks	5.21		

Note: **Indicates significance at 5%
Source: Table by authors

Table 6. *T*-tests for differences between groups

From the table above, it is found that the higher average of disclosure index for banks not following AAOIFI standards as compared to banks following AAOIFI is statistically insignificant; hence such difference shall not be interpreted. This means that following AAOIFI or otherwise does not seem to make a difference in terms of enhancing the zakat disclosure. Interestingly, the difference in values between full-fledged Islamic banks and Islamic subsidiaries is statistically significant with 95% confidence level. Islamic subsidiaries seem to have higher disclosure values. Yet, the significance of the difference cannot be generalized to all countries of the sample. This is because most of the subsidiaries in our samples belong to one country, which is Malaysia; hence, the reason behind this difference may not be due to the business structure rather than the jurisdiction. However, this finding proves that being a subsidiary of a conventional bank does not necessarily imply less interest in Shariah matters such as zakat as sometimes claimed in theory.

4.2 Analysis of the zakat disclosure details

While the previous analysis provides an overview of zakat disclosure in Islamic banks, further analysis on the type of disclosure is made in this section. The following table represents the number of banks disclosing each of the constituent items of the constructed zakat disclosure index. Further analysis for each one of the four aspects that constituted the zakat index is included after the table.

The above [Table 7](#) is analyzed based on each aspect as follows:

4.2.1 Disclosure of the zakat amount and the responsibility for payment. Zakat amount can be considered as the most important piece of information with regard to transparency in zakat disclosure. This is especially because zakat calculation might be tedious and cumbersome for the laymen to perform. [Table 8](#) below indicates that there is a considerable number of Islamic banks within the sample that do not disclose the zakat amount.

That said, the level of disclosure seems to be slightly improving over time. In 2018/19, around 71% of banks in the data sample disclosed the zakat amount as compared to 65% in 2014. Similarly, the disclosure of the party responsible for paying zakat is slightly improved, in which 88% disclosed this information in 2018/19 as compared to 85% in 2014. Yet, the important observation from this table is the consistency of the results within countries. Banks with no disclosure of zakat amount are mainly from four specific countries: Turkey, Jordan, Pakistan and Qatar. In addition, banks that do not clearly mention the party responsible for zakat belong to Turkey and Pakistan only.

As far as the responsibility of paying zakat is concerned, scholars hold different opinions regarding whether zakat payment should be the duty of the bank, its shareholders or both. Though answering such a question from Shariah's perspective is not the purpose of this study, disclosing the decision is very important to ensure that the shareholders are informed whether the zakat of their shares has been paid or they should pay it themselves. Surprisingly, the information disclosed in this regard in the annual reports is neither clear nor consistent across all the banks. [Table 9](#) below, which reports the number of banks categorized by the disclosed information about the responsibility of paying zakat, demonstrates the different practices between the banks in this regard.

Interestingly, out of the ten banks which indicate that shareholders are responsible for zakat, six banks have not provided the zakat amount per share. This is a clear area of disclosure that needs to be improved. Leaving the responsibility of zakat payment to the shareholders without offering the zakat amount per share would most likely result in miscalculations. This is because of the current level of complexity of the balance sheets of Islamic banks, which makes it harder for laymen to determine the actual zakat amount payable. As a result, the shareholders with the intention to hold the shares as a long-term

Table 7.
Type of disclosures
made by the banks

Categories	Subconstituents	2014		2018/19		Changes*
		No. of disclosing banks	Percentage (% of total 34 banks)	No. of disclosing banks	Percentage (% of total 34 banks)	
Disclosure of the zakat amount and the responsibility for payment	Amount of zakat (per share or total)	22	65	24	71	+
	Payment responsibility	29	85	30	88	+
Disclosure of the zakat calculation method	Name of method	17	50	20	59	+
	Details about the method or clear reference to it	2	6	3	9	+
Disclosure of the involvement of the Shariah board on zakat calculation:	Shariah board's clear endorsement of zakat amount	10	29	11	32	+
	Shariah board's involvement in zakat calculation	14	41	14	41	NC
	Amount of zakat	0	0	0	0	NC
Disclosure of zakat duty on investment account holders	Payment responsibility	7	21	9	26	+

Notes: *(+)- indicates an increase in disclosure level. (NC) indicates a no change in disclosure level
Source: Table by authors

Following AAOIFI? Country	2014				2018/19				
	N of banks in the sample	N of banks Disclosing the amount	% disclosing the amount	N of banks disclosing the responsibility	% disclosing the responsibility	N of banks disclosing the amount	% disclosing the responsibility	N of banks disclosing the responsibility	%
No									
	1	1	100	1	100	1	100	1	100
Bangladesh	1	1	100	1	100	1	100	1	100
Egypt	1	1	100	1	100	1	100	1	100
Kuwait	2	2	100	2	100	2	100	2	100
Malaysia	9	8	89	9	100	9	100	9	100
Saudi Arabia	4	4	100	4	100	4	100	4	100
Turkey	2	0	0	0	0	0	0	0	0
Bahrain	2	2	100	2	100	2	100	2	100
Jordan	3	0	0	3	100	0	0	3	100
Pakistan	4	0	0	1	25	1	25	2	50
Qatar	2	0	0	2	100	0	0	2	100
Sudan	1	1	100	1	100	1	100	1	100
Syria	2	2	100	2	100	2	100	2	100
UAE	1	1	100	1	100	1	100	1	100
<i>Grand total</i>	34	22	65	29	85	24	71	30	88

Source: Table by authors

Table 8.
Disclosure of the
zakat amount and
the responsibility for
payment

investment to enjoy the dividends will have no other option than to calculate the zakat based on the market value of the share though they are requested, according to OIC Fiqh Academy and AAOIFI, to pay zakat based on the underlying investment structures in which fixed assets, for instance, are excluding together (with other adjustments) from the calculation of the zakat [OIC Fiqh Academy Resolutions (1988 and 2001)].

4.2.2 *Disclosure of the applied zakat calculation method.* This parameter assesses the disclosures of the calculation method applied to derive the zakat amount. Transparency in the calculation method can play a role in providing the framework upon which zakat has been accounted for. It also enhances the level of the perceived confidence in the willingness of the particular Islamic bank to adhere to the Shariah requirements.

Table 10 shows that many Islamic banks do not disclose the method used to calculate the zakat amount. The table indicates that out of 34 banks, 50% of them did not include the zakat calculation method used in 2014. However, the percentage declined to 41% in 2018/19. This supports previous findings that zakat disclosure is slowly improving in Islamic banks. Yet, the level of disclosure about zakat calculation is still very low. Furthermore, the table clearly shows that there is no unanimously accepted method for zakat calculation. That is evident by the 11 different calculation methods detected. This finding confirms that of Abojeib *et al.* (2019), who suggested that banks are following different zakat calculation

Table 9.
Responsibility of
paying zakat based
on the annual reports

Responsibility to pay zakat	N of banks in the sample			
	2014		2018/19	
	No.	%	No.	%
Bank	17	50	18	53
Shareholders	10	29	10	29
Bank and Shareholders	2	6	2	6
Not disclosed	5	15	4	12
Total	34	100	34	100

Source: Table by authors

Table 10.
Zakat calculation
methods

Calculation method	2014		2019	
	No. of banks	%	No. of banks	%
Not disclosed	17	50	14	41
2.5% of the share premium, reserve and dividend equalization accounts	2	6	2	6
Local regulations/guidelines with no details	4	12	6	18
Profit and loss method	2	6	2	6
Growth capital method	2	6	3	9
Working capital method	2	6	1	3
Net asset method	1	3	2	6
Adjusted growth method	1	3	1	3
Adjusted net profit or net shareholders equity (whatever larger)	2	6		0
AAOIFI standards with no details	1	3	1	3
Adjusted shareholders equity			1	3
2.5% of the paid-up value of the share			1	3
Grand total	34		34	

Source: Table by authors

methods. However, it shall be noted that banks may use different terminologies for the same calculation method. It is also possible for banks to use the same terminology while the method of calculation is different. As such, disclosing a clear reference or detailed calculation becomes very important. Nonetheless, only three banks (in three different countries) out of the 34 banks included in this study followed such practice comprehensively. The remaining banks included only some hints on the method used or the standard referred to.

Looking into the data per country, Egypt, along with the four countries previously detected to have the lowest level of transparency regarding zakat amount, which are Turkey, Jordan, Pakistan and Qatar, are reported to have limited disclosure of the calculation method as well (see Table 11). Furthermore, Islamic banks in Bahrain and Sudan seem to have no disclosure of the zakat calculation method. While both countries are reported to follow AAOIFI reporting standards, it could be implicitly inferred that the Islamic banks in these countries are also following one of the two zakat calculation methods endorsed by AAOIFI. Still, we detect this as an issue of limited disclosure that needs to be addressed, believing that disclosing the method of zakat calculation would clearly add value for interested stakeholders.

4.2.3 Disclosure of the approval of the Shariah board on zakat calculation. In theory, Shariah committees in Islamic banks are expected to be consulted for matters related to zakat calculations to ensure that the zakat calculation has been performed in the correct manner. While the Shariah committee members are not accounting experts to calculate the zakat on their own, they are expected to review and endorse the calculation methods applied. The inclusion and exclusions of some off-balance sheet items or on-balance sheet items shall be made after consulting the Shariah committees. As such, AAOIFI requested an endorsement of the Shariah committee of the zakat calculations. However, only 14 banks out of the 34 banks included in the study indicated such involvements in 2018/9 annual reports, i.e. around 41% of the data sample. And out of these 14 banks, only 11 of them reported the endorsement of the Shariah board on the zakat amount or the zakat calculation. The other

Following AAOIFI?	Country	Total N of banks in the sample	2014		2018/9	
			N of banks disclosing the name of the method	%	N of banks disclosing the name of the method	%
No	Bangladesh	1	1	100	1	100
	Egypt	1	0	0	0	0
	Kuwait	2	2	100	2	100
	Malaysia	9	8	89	9	100
	Saudi Arabia	4	4	100	4	100
	Turkey	2	0	0	0	0
Yes	Bahrain	2	0	0	1	50
	Jordan	3	0	0	0	0
	Pakistan	4	0	0	1	25
	Qatar	2	0	0	0	0
	Sudan	1	0	0	0	0
	Syria	2	1	50	1	50
	UAE	1	1	0	1	100
	<i>Grand Total</i>	<i>34</i>	<i>17</i>		<i>20</i>	

Table 11.
Disclosure of zakat
calculation method
per country

Source: Table by authors

banks indicated that Shariah boards are generally consulted in zakat matters without clearly specifying the role of the Shariah boards.

Table 12 below shows the related results derived from the annual reports of the studied sample. The table again confirms that banks in Turkey, Jordan, Pakistan and Qatar disclose minimal information about zakat in their annual reports. None of the banks in these countries reports an approval or endorsement of the Shariah committee on the zakat calculation, nor any involvement in this regard. Furthermore, banks in Bangladesh, Saudi Arabia and Sudan seem to report no involvement of the Shariah committee in zakat.

4.2.4 *Zakat on investment account holders.* As mentioned earlier, disclosure of the zakat amount payable by investment account holders is of vital importance. This is because it is rather tedious, if not impossible, for the investment account holder to individually calculate the payable zakat amount based on the underlying investments on his own. As such, the only option for the investment account holder will be to calculate the zakat by multiplying the invested amount by 2.5%, which might vary from the adopted fatwa issued in the particular jurisdiction or bank. This is one of the reasons why AAOIFI in its FAS 9 requires determining the zakat dues on investment accounts and declaring if the bank takes the initiative to pay the zakat on behalf of the holders or not.

Surprisingly, none of the sampled Islamic banks in this study seem to declare the zakat payable by the investment account holders in the annual report. Further, only seven Islamic banks in 2014 and nine in 2019 seem to give clear directions about who is responsible for the respective zakat payment. These banks operate in Egypt, Malaysia, Bahrain and surprisingly, Jordan despite having minimal disclosure scores for other items. For all these banks, which represent only 27% of the sampled Islamic banks as of 2018/9, the annual reports mentioned that the investment account holders are responsible for the zakat payment. This indicates that Shariah scholars are in agreement that the bank as *mudarib* has no zakat responsibility for the investment accounts. Nevertheless, not calculating the zakat on investment accounts by the banks has an important implication on the investment account holders. This is because the nondisclosure of the zakat amount per the dollar placed in the investment accounts would force the investors to consider 2.5% of the invested

Country	Total number of banks	2014		2018/19	
		No. of banks	%	No. of banks	%
Bangladesh	1	1	100	0	0
Egypt	1	1	100	1	100
Kuwait	2	1*	50	1*	50
Malaysia	9	7	78	7	78
Saudi Arabia	4	0	0	0	0
Turkey	2	0	0	0	0
Bahrain	2	1*	50	2*	100
Jordan	3	0	0	0	0
Pakistan	4	0	0	0	0
Qatar	2	0	0	0	0
Sudan	1	0	0	0	0
Syria	2	2	100	2	100
UAE	1	1*	100	1	100
<i>Grand Total</i>	<i>34</i>	<i>14</i>	<i>41</i>	<i>14</i>	<i>41</i>

Table 12.
The disclosure of the involvement of the Shariah committee in zakat calculation

Notes: *Refers to the banks with no clear Shariah board endorsement of zakat calculations
Source: Table by authors

amount zakat annually regardless of whether the amount is invested in fixed assets or otherwise, though investing it in fixed assets implies zakat on revenues rather the value of the fixed assets as per AAOIFI and OIC Fiqh Academy Shariah resolutions.

4.3 Disclosure on the recipients of zakat payments

If the bank pays the zakat on behalf of the shareholders, the latter will expect to be informed about the distribution of zakat, including information about whether the bank is distributing the zakat first-hand or channeling it to a third party to do so. To stay neutral, our disclosure index did not accommodate for this aspect because such information will be relevant only for the banks which are paying the zakat. Yet, we have investigated this separately. Our investigation indicated that the vast majority of Islamic banks do not include any information about the zakat beneficiaries. Only six Islamic banks in 2014 and eight banks in 2018/9 disclosed information about the zakat beneficiaries (See [Table 13](#) below).

5. Conclusion

This paper performed a cross-country analysis of zakat disclosure in Islamic banks. The study used data from annual reports of 34 Islamic banks across 13 countries covering the years 2014 and 2018/19. The sample included 27 full-fledged Islamic banks as well as seven subsidiaries of conventional banks. To analyze the level of zakat disclosure across different jurisdictions, the authors resorted to constructing a zakat disclosure index that is created based on the FAS 9 issued by AAOIFI. The index uses a scale from zero to ten, with ten being the best level of zakat disclosure. The index is constructed using four main constituents. Each constituent is comprised of another two subconstituents. The four main constituents are disclosure of the zakat amount and the responsibility for payment, disclosure of the zakat calculation method, disclosure of the involvement of the Shariah board on zakat calculation and disclosure of zakat duty on investment account holders. Furthermore, for more robust results, the study used another approximate proxy to estimate the level of zakat disclosure in Islamic banks. The proxy used is the word count of the word “zakat” in Arabic and in English within the annual reports of the sampled Islamic banks.

The results indicate a slightly higher overall average of the constructed disclosure index in 2018–19 as compared to 2014, suggesting that Islamic banks are disclosing more zakat-related information to their stakeholders. However, the improvement in the disclosure is found to be applied to a few banks only, whereas most of the banks are maintaining the same level of disclosure. The highest zakat index score in 2019 was recorded for al-Barakah bank in Syria and Emirates Islamic banks in UAE with an equal score of 7.5, while the lowest score was zero for the two Islamic banks in Turkey reported no information about zakat whatsoever in the annual reports. This might be understandable since the Islamic banking industry in Turkey is called “participative banking” rather than “Islamic banking” not to mention other possible political motives. Furthermore, the results indicate that banks following AAOIFI do not have a statistically higher disclosure index. This means that

Country	2014	2018/19
Egypt	1	1
Malaysia	4	6
UAE	1	1

Source: Table by authors

Table 13.
Disclosure on
information of the
recipients of zakat
payments

following AAOIFI or otherwise seems not to make a difference in terms of enhancing the zakat disclosure of the bank, at least not in terms of disclosure through the annual reports.

Despite the minimal improvements in disclosure between 2014 and 2019 for a few banks, the study revealed that, in general, Islamic banks need to step up their transparency in zakat-related matters a lot more than the current level. Most of the annual reports include some basic information about the amount and responsibility of zakat, without much more details. For instance, 88% of the examined annual reports for 2019 indicate whether the bank or the shareholders are responsible for zakat, and 71% of them report the zakat amount. Yet only 59% of the banks mention the calculation method and only 9% of them include a clear reference or fair explanation of the calculation. Only 41% of the banks indicate in the annual report an involvement or an endorsement of the Shariah committee on the zakat amount or calculation method. Furthermore, surprisingly, none of the Islamic banks under this study seem to declare the zakat payable by the investment account holders in the annual report. While 26% of the examined reports mention that the investment account holders are responsible for the zakat, the rest of them were totally silent in this regard.

6. Implication and policy recommendations

The findings have significant implications as they raise a serious concern regarding the sufficiency of the Islamic banks' disclosure about a core area of their social responsibility, that is, the zakat. While the findings open new areas for future research on the matter, the index developed can be a tentative measure of zakat disclosure transparency pending further review. This result is a contribution to knowledge and practice. The findings also raise the awareness regarding the need of the Shariah boards of Islamic banks to look more closely at the zakat calculation and disclosure. It suggests looking at the composition of members of Shariah boards to include at least one member with sound accounting background to effectively examine the bank performance in terms of the zakat calculation method. Zakat is a religious duty; therefore, a perceived lack of transparency on the amount, method of calculation, and how the zakat is paid may affect the future injection of capital into Islamic banks. In countries where zakat is a deduction in the computation of tax liability, a lack of information about zakat may affect equity participation and investment holding.

This study can be of help to the executives of Islamic banks, especially Shariah personnel, as it highlights the zakat disclosure issue from multiple perspectives. Policymakers also should find the results helpful in the formulation of policy that will affect the welfare of society. They can adapt the proposed zakat disclosure index to measure the banks' transparency with regard to zakat calculation in a structured manner that can reduce the subjectivity of personal judgment by depending on the proposed set of parameters. This is because the index offers well-defined and seemingly independent zakat disclosure aspects. Bank executives, including Shariah members, can use the proposed index to systemize and structuralize the zakat disclosure of their respective Islamic banks. Finally, the authors would recommend establishing a set of guidelines and parameters that govern the issue of zakat disclosure of Islamic banks, at least within the same jurisdiction, although having a worldwide standardized approach might be more well-regarded. Islamic finance organizations such as General Council for Islamic Banks and Financial Institutions, IFSB and AAOIFI can take up such responsibility.

7. Limitations

Finally, among the limitations of this study is the sole dependence on annual reports of Islamic banks without considering other means that banks might be using to communicate zakat-related matters to stakeholders. Examples of such means include a website, social

media and other direct or indirect marketing materials. Additionally, the results of this study shall not be overgeneralized regarding differences between countries because the sample does not include all Islamic banks in the selected country. Perhaps future studies could focus on using the proposed zakat disclosure index on a country-specific data sample.

Note

1. For four banks, 2018 data is used instead of 2019 data due to its unavailability. Therefore, the format 2018/19 is used throughout the research to indicate either 2018 or 2019.

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