CHAPTER VI
TABUNG HAJI – A UNIQUE FINANCIAL INSTITUTION
OF MALAYSIA

INTRODUCTION

Having examined the overall development of Islamic banking and finance in Malaysia and some other countries of the region, we now turn to study in some detail an important Malaysian institution of saving and investment – Tabung Haji – that played a vital role in convincing public and professional banker that the idea of Islamic banking is feasible and practical. It has also shown the way for establishment of similar institution in other neighbouring countries. Tabung Haji (TH), as it is popularly known, is arguably the world’s largest Islamic savings institution. Its full official name is the Pilgrims Management and Fund Board (PMFB). Reason for the establishment of this institution was the desire of Malaysian Muslims that money spent on pilgrimage must be clean and unmixed with ribā. Muslims, especially in rural area who were bothered with the illegitimacy of bank interest, were saving huge sums for the pilgrimage by traditional or primitive methods. The majority of them had to resort to the sale of their inherited property such as land to come up with the necessary capital. This resulted in dire economic consequence before and after the hajj and also was non-conducive to economic expansion and development.

Pilgrimage is the threshold of a Muslim’s spiritual experience. As it is the supreme expression of the belief in Allah, it is, therefore, an obligation on all Muslims to perform the hajj at least once in their lifetime if their circumstances permit. It requires tremendous preparation on the part of the believers, both spiritually and materially, so that the hajj can be performed in its complete form and manner. The condition for obligatory hajj is that one should have enough
resources to bear to and fro travel expenses and to have enough material at home for dependents and for him on return. But Malaysian Muslims have over desire to perform hajj even if they have to save money for it and cut other expenditures. Financially, in Malaysian case, the journey to Makkah in the 1950s had cost most pilgrims their lifetime savings, a lot of sacrifices and hardships. Their economic plight after the hajj was even more distressing. Having sold everything to perform the hajj, some returned to nothing. To meet the needs of the pilgrims before, during and after the hajj, the PMFB was set up in 1963.³

As noted above, the board was established to serve two functions – as a financial institution and as a pilgrim's management body. After being in operation for two decades, the board seems to have reoriented its activities more along commercial lines. Nonetheless, its original goal of enabling its members to perform the hajj and safeguarding their welfare during the pilgrimage continues to be served. It has been mentioned that the “functions of the board as a savings institution is secondary to its main function as a pilgrims management institution”.⁴

Tabung Haji (TH) has played a significant role in paving the way for Islamic financial development in Malaysia. The impressive success of Tabung Haji provided the main impetus for establishing the first full-fledged Islamic bank, Bank Islamic Malaysia Berhad (BIMB), in the country. It even has 12.5 percent stake, second largest after the government shareholding, in the initial establishment of BIMB. Its impressive contribution to the development of Islamic banking and finance in Malaysia that can be replicated elsewhere, coupled with its significant successful operation and performance in primarily fulfilling the long life desire of many individual for the performance of hajj rituals, enabled it to win the award of IDB (Islamic Development Bank) prize in Islamic banking in 1989 (1410H).⁵ It is the model of future financial institution, that transforms from the non-commercial Islamic voluntary sector to a highly
organized and specialized Islamic financial institution that join the objectives of fulfillment of religious rituals and commercial banking together.

At the national level, *hajj* can be viewed as one of the most powerful institutions in the monetary sector of the Muslim countries for the purpose of domestic savings and investments in conformity with Shari'ah, as demonstrated by the successful experience of Tabung Haji. It is felt that the *hajj* management has an extremely important role to play in consolidating and sustaining economic cooperation and integration in an economy. Despite the fact that many of the activities of the Islamic voluntary sector which may include the institutions such as *zakat*, *awqaf*, *mosque*, *hajj* and Islamic non-profit charitable trusts and foundations do not come under the conventional calculations of Gross National Product (GNP). Tabung Haji has proved to the world of how to operationalise and institutionalize the *hajj* activities of the voluntary sector that can be integrated into the mainstream of economic activity, resource mobilization, savings and investments. Tabung Haji, thus, is viewed as an Islamic institution that has evolved from the voluntary sector and become the best in the Islamic world for the mobilization of saving and investment by providing the most comprehensive *hajj* service in ‘one package’ thereby creating an opportunity to perform *hajj* at the least possible cost.

**HISTORICAL BACKGROUND OF TABUNG HAJI**

Tabung Haji was set up as a quasi-government body in accordance with the Parliament Act 1969 and materialized as a result of merging two entities charged with the management of pilgrimage affairs, the Malayan Muslim Pilgrims Savings Corporation and the Pilgrims Control Office.

Looking at its current role as a monopoly in pilgrims' welfare management, perhaps very few knew that the board originally started purely as savings fund for prospective pilgrims. The historical evolution of Tabung Haji can thus be divided into two stages. The first stage was the setting up of the Malayan Muslim Pilgrims Savings Corporation in 1962. The original idea behind
the creation of this corporation was initiated by Royal Professor Ungku Abdul Aziz of the University of Malaya who, after an extensive study of the rural economy in the 1950s, presented a memorandum to the government suggesting the need of a corporation which will assist Muslims to perform the *hajj* without impoverishing them or imposing financial hardships after the pilgrimage. In the memorandum he mentioned “the biggest single motive for savings that is evident in any part of Malaya where there are Malays is that of saving for pilgrimage. This plan will create a new institution that will not only help them to achieve their desire in a more efficient way but it will enable them to do it in less time and with less loss to themselves and to the national economy particularly the rural economy”.

Before this, on the whole, pilgrims returning home suffered economic instability with the loss of their vital assets in life such as house, land and breeding animals, which had either been sold or mortgaged. It was often assumed in those days that there was hardly any savings to be mobilized in the rural sector. Ungku Abdul Aziz, however, estimated that about RM 3 million was spent each year by pilgrims, a steady source of savings that went on increasing which the government could not afford to neglect. But the way by which this huge sum was saved was unsuitable for a monetized economy and harmful to national progress. Savings for the purpose of pilgrimage were typically hoarded in pillowcases and under the mattresses and floorboards or invested in land or livestock, which would be later sold to meet the expenses for the *hajj*. Hoarded cash not only decreased in value over time but also was vulnerable to the theft and fire, while land as a form of saving was affected by subdivision, fragmentation, neglect and so forth.

Such a saving behavior among Muslims was not without justification. The main reason for resorting to saving outside the financial framework was to ensure that the money to be spent on the *hajj* was completely free form *ribā* (interest). The savings facilities in any bank or financial institution at that time were unacceptable to those Muslims because of the presence of interest. “The
solution", as perceived by Ungku Abdul Aziz, \textquoteleft was an institution to mobilize savings, not to involve interest, but to involve profits\textquoteleft.\textsuperscript{9}

The plan was lauded, but could not be implemented then, as the government was unable to resolve the question of ribā. Nevertheless, it was finally carried out in 1962, following the recommendation of Sheikh Mahmoud Al-Shaltout, rector of Al-Azhar University and grand Mufti of Egypt, who, on his visit to Malaysia, studied the plan and found it absolutely ribā-free and technically sound.\textsuperscript{10} The Pilgrims Savings Corporation was incorporated in August 1962 and launched on 30th September 1963. From the Shari‘ah (Islamic Law) point of view, this constituted a major effort to rescue the Malaysian Muslim community from interest and hoarding, both of which are forbidden in Islam.

The second stage in the development of Tabung Haji was marked by the merger between the Pilgrims Savings Corporation and the Pilgrims Affairs Office, which had been in operation since 1951. Even though the former was largely a financial institution, from time to time, it had to cater for the welfare of prospective pilgrims who were members of the corporation. Thus to avoid duplications and overlapping of functions between the two bodies, the government found it worthwhile to form a new body which would incorporate the functions of both. This led to the establishment of Pilgrims Management and Fund Board (PMFB) or Tabung Haji by statute in August 1969.\textsuperscript{11} However in 1995, a study was made to expand the operating framework of Tabung Haji. As a result, the new Tabung Haji Act 1995 was passed on 1st June 1995 and enacted by the Parliament. Act 8 of Lembaga Urusan dan Tabung Haji Act 1969 was then repealed by Act 535 of the Laws of Malaysia. With the new Act, Tabung Haji is able to expand its business network globally.
CORPORATE ORGANISATION
Objectives and Missions

Under its Act of Incorporation, the administration of Tabung Haji would encompass three board of operation, namely: (1) savings mobilization and maintenance (2) savings utilization (investments), and (3) pilgrimage welfare management.

Each of these areas aims to accomplish the following objectives correspondingly:¹²

1. to enable Muslims to save gradually so as to provide for their expenses in performing the pilgrimage or for other expenses that are beneficial to them;

2. to enable Muslims, through their savings, to participate in investments in industry, commerce, plantations, and real estate, as approved by Shari’ah; and

3. to provide for the protection, control, and welfare of Muslims while on pilgrimage through various facilities and services of Tabung Haji.

The clarity of the above objectives enabled the formulation of the following goals:

1. to render the best and most satisfactory services to Malaysian pilgrims on matters pertaining to the performance of the hajj; and

2. to give maximum investment returns to depositors on their savings.

Striving to attain the above objectives and goals, the Tabung Haji is willing itself to achieve its strategic vision in line with the following Mission Statement:¹³

1. Providing efficient and professional customer services to all clients.
2. Nurturing a strong sense of teamwork spirit, commitment and trust, productivity and practising of good and respectable virtues.

3. The ability to provide high investment returns and maintain competitive investment growth.

4. On-going updates and improved utilizations of the latest technology in the administrative system to ensure quality services.

Organizational Structure

The organizational structure of Tabung Haji is shown in chart A. Tabung Haji is now a semi-government body under the Prime Minister's Department. Its organizational structure reflects a fully autonomous body, which is able to exercise its statutory powers and executive policies for the benefit of its depositors. Its highest authority, the board of directors, is empowered under the Act to formulate policies and implement programmes in the interest of the organization and its depositors. Additional power is also given to administer the funds and all the other matters pertaining to the welfare of the pilgrims. Members of a the board comprise a chairman, a deputy chairman, a representative of the Prime Minister's Department, a representative of the Treasury, a director-general, not more than five other members appointed by the Prime Minister, and a representative from the Ministry of Health (by invitation).

Despite its vast powers, the board of directors would only act upon the advice and supervision of two advisory councils; namely the Investment Advisory Council on matters regarding investments and the Haji Advisory Council on matters pertaining to the welfare of the pilgrims and hajj management. Decisions made are then delegated to the management for implementation and are supervised and checked by two bodies, namely Shari'ah Council and the Audit Committee. Thus, elements of check and balance are inherent in almost all processes and procedures to ensure efficiency, trustworthiness and conformity to Shari’ah.
Chart A: Tabung Haji - Organizational Structure

Under the Chief Executive Officer appointed by Minister in the Prime Minister's Department, the management is divided into five departments, namely; Financial Department, Depositor's Department, the Hajj Department, Human Resources Department and Investment Department, each specializing in specific activities discussed below:

**Financial Department**

The financial department operates and functions as a body which undertakes, plans, provides and prepares capital expenditures for Tabung Haji. This department does most of the financing, catering the needs of the relevant departments to ensure organizational objective is met. In addition, it plays a vital role towards the procurement of maximum return from short-term investments as well as building rentals. This department is also charged with the responsibility of managing the financial affairs of Tabung Haji in line with the Board’s policy and strategic financial control.

**Depositor's Department**

The depositor's department is responsible for all matters relating to the savings and withdrawals made by depositors at all district and state offices, as well as central office and appointed agencies such as the post office. In line with the Prime Minister's vision, this department is working towards identifying positive efforts and formulating concrete strategies to obtain at least 50% of the Muslim population in Malaysia as Tabung Haji depositors before the end of year 2000. Efforts are also being harnessed to encourage a minimum of RM 1,000 deposit from every depositors for purposes of pilgrimage, investments or other uses permissible under section 16(2) Tabung Haji Act 1995.

Currently, this department is pooling its necessary resources to strengthen and strategize its marketing and services affairs to boost depositor's confidence as well as Tabung Haji's business stability and viability.
**Hajj Department**

This is an important department charged with the responsibility of providing impeccable and quality multifaceted services, which includes security, welfare, medical services as well as other services related to the operation and management of the *hajj* pilgrimage.

An efficient and systematic supervision of the pilgrims is being undertaken by this department in addition to providing adequate protection at all levels of the pilgrimage programmes. This department also ensures that pilgrims are given adequate accommodation, a safe and comfortable travel mode and the best in-class medical services. In addition, it acts as an effective information center providing proper guidance and comprehensive courses relating to the *hajj* pilgrimage designed to ensure its proper performance.

The Hajj Department is not confined to providing services within Malaysia but also at the holy land of Mecca. Other stipulated responsibilities of this department include *hajj* registration, preparation of visa and passport for the pilgrims, management and coordination of consortium/package *hajj* travel, enforcement of *hajj* quota, coordination of payments relating to the management of the *hajj* programmes, provision of *hajj* travels plans, enforcement of *hajj* regulations and other related functions.

**Human Resources Department**

The implementation and enforcement of regulations, laws, and policies passed by the Board in accordance with Tabung Haji Act and in line with Islamic principles rests with this department. In short, this department operates and functions as a body directed towards the development of the workforce of Tabung Haji. As a forward-looking department, the strength of human asset is taken into serious consideration. In addition to developing human resources to the highest degree of competence through adequate training, this department also provides technical support to relevant departments within Tabung Haji by
providing sufficient manpower needs. It is also responsible in providing latest information and overall development of Tabung Haji to the public as and when required. In addition, all matters pertaining to the acceptance and postal of letters at Tabung Haji are managed by this department.

Human resources department also supervises the effectiveness of the implemented quality service system to ensure systematic and stringent quality standards are continuously maintained.

Investment Department

This department is responsible for all aspects of investments in the economic sector as approved by Shari’ah Law designed to obtain maximum returns. Strategic attention is given to diversifying the investment portfolio and fortifying the investment activities aimed at procuring and increasing profit-taking. Efforts are also directed towards inflating ‘Ummah’ (nation) funds as well as increasing production of goods and facilities, which could benefit the public at large.

Serious attention is given to able companies with potential to succeed, backed by an efficient management team. This department is continuously focusing efforts towards identifying industries with strong growth potential to guarantee overall success of its investment performance.

Each of the above departments is divided into divisions, which are further subdivided into branches, units and sections to provide for better management, supervision and control. Furthermore, under the Chief Executive Officer, there are Corporate Planning Division, Corporate Communication Division, Internal Auditing Division and Hajj Consulate, each with specific operation and delegations, i.e., planning, computerization and information, internal auditing and the Hajj Consulate in the Kingdom of Saudi Arabia respectively.
FINANCIAL ACTIVITIES OF TABUNG HAJI

Mobilization of Deposits

Tabung Haji provides only one form of saving facility, that is, deposit facility. It accepts deposits from members on the Shari'ah principle of wadiah, whereby depositors grant permission to Tabung Haji to use their deposits for investment purposes. Profits from investment are then distributed among depositors in the form of bonus after the payment of zakat and other allocations have been made. In other words, profit earned from investment are professionally handled and channeled to the depositors' account in the form of bonus which is not only tax free but exempted from zakat. This is because Tabung Haji makes the zakat payment on behalf of the depositors.

Membership of Tabung Haji is limited to Malaysian Muslim individuals only. The minimum deposit required to open an account is RM 10.00 for adult and RM 2.00 for children. Formerly, no savings account book was issued on opening an account. Instead, each member was given an account number, which was used when subsequent deposits were made. Statement of account was sent to depositors biannually, as at 30th June and 31st December. However, in May 2000, Tabung Haji has launched its long-awaited Tabung Haji Depositors' Savings Book for the first time. Bonus is calculated at the end of the year and credited to the account of individual depositors after the net distributable profit for the year minus zakat has been determined.

Deposits can be made at the Tabung Haji head offices or branch office, through post offices throughout the country, or by monthly salary deduction. These methods of the savings have been devised on the premise that they are fool-proof, convenient for all members, and can be easily administered with least possible expenditure.

To attract new depositors and to enhance the attractiveness of savings activities, Tabung Haji has introduced various saving schemes, such as:
1. Malaysia Schools Incentive Scheme for school-children by introducing coin-boxes;

2. Pay-As-You-Earn Scheme through salary deduction for the individual and family. This is a savings scheme for dependants where a depositor is encouraged to extend his monthly salary deduction to his dependants;

3. Monthly Bonus Payment Scheme or Fund for Monthly Bonus Plan. This scheme is specially devised for depositors in the lower income group who receive compensation from the government for their land and property forgone for development purposes. Through this scheme, they are ensured a fixed monthly income; and

4. many others such as Employment Provident Fund (EPF) Investment Scheme, etc.

Withdrawal of Deposits

Tabung Haji is one of the very few financial institutions that provides a direct link between saving and purpose. As such, under the Act, savings deposited with the board cannot be withdrawn for reasons other than to defray all or part of the depositor's pilgrimage expenses, except in the following cases:

1. the death of the depositor;

2. when age, health and so forth make it difficult to undertake pilgrimage; and

3. on production of satisfactory evidence of intending emigration form Malaysia.

In principle, before 30th June 1997, withdrawals are allowed only once in six months, with a maximum withdrawal of up to 80 per cent of the individual's credit balance. However, 100 per cent withdrawals are allowed for the exceptional reasons stated above. In addition, a member who is registered for
pilgrimage in a certain year cannot make withdrawals within six months before his departure but is permitted to withdraw his savings in Makkah or Madinah. On his return to Malaysia, withdrawals can only be made two month after the wukuf date (the day of the hajj).\textsuperscript{22}

All withdrawals are processed at the Tabung Haji head-office in Kuala Lumpur and it normally take a week or ten days before payment can be made. It may be noted that the rules governing withdrawals of deposits accord a long-term character to the deposits. This is to ensure that the primary aim of enabling the members to save for the hajj is achieved. Moreover, funds of the board could be invested in long-term investments, which usually take at least six months for profits to accrue.\textsuperscript{23}

However, this procedure has hampered the Tabung Haji to satisfy its depositors, and since the umrah performance becomes the supplementary of the primary objective of the establishment of Tabung Haji. In 30th June 1997, to enable speedier withdrawal of savings, Tabung Haji has abolished the 'stop withdrawal' system from six months to daily withdrawal and increased permissible cash withdrawal amount form RM 2,000 to RM 10,000 affected from 13th October 19997. Withdrawal, which could be made at its head-office in now can be made at all Tabung Haji offices as well as agencies appointed by Tabung Haji including the withdrawal centre in Makkah. This procedure not only satisfy excellent services to its members, but also will attract more and more depositors.\textsuperscript{24} In addition, to facilitate more convenience in the process of withdrawal, Tabung Haji has planned to provide ATM (Automatic Teller Machine) facilities to its 3.8 million depositors (as at July 2000) through collaboration with the existing financial institutions.\textsuperscript{25}

Thus, the depositors are allowed to withdraw their savings for any beneficial purpose daily. The procedures for withdrawal from the account of a deceased depositor are based on Islamic Law. In this context, depositors above the age of eighteen are allowed to appoint a nominee or nominees who will act
as a trustee later. If the deceased depositor has appointed a nominee or nominees, Tabung Haji will pay the balance in the account of the deceased depositor to the nominee who is then requested to distribute the money to other beneficiaries according to 'Faraid' (inheritance law). If the deceased depositor has not appointed a nominee or nominees, Tabung Haji will advise the beneficiaries to get a ‘Letter of Administration’ form the Shari'ah Court, High Court, Public Trustee or District Office. Based on Tabung Haji experience, the faraid certificate issued by the Shari'ah Court is easier and faster as it states the distribution of estates according to Faraid Law.

Utilization of Funds

Since the funds lodged with Tabung Haji is being held for the hajj, the areas of investments have to be within the framework of Shari'ah. This, therefore, rules out investment in government and non-government interest-bearing securities or shares in companies producing goods, which are forbidden in Islam. Nevertheless, the scope for investment is still broad. At present, there are five types of investments undertaken by Tabung Haji, viz.

1. Investment in share (equity participation)
2. Investment in subsidiary companies
3. Investment in land and building
4. Short-term and long-term investment
5. Investment in money market, bond, and corporate notes

To ensure that investment operations are in compliance with the Shari'ah rules, Tabung Haji was brought under the advice of the National Advisory Council, which was later replaced by the Religious Supervisory Council of Bank Islam Malaysia after its establishment in 1983. Besides, Tabung Haji Advisory and Supervisory Council, which is also a council of Bank
Islam Malaysia, is brought under the highest Shari’ah authority, National Syari’ah Advisory Council for Islamic Banking and Takaful (NSAC) established in May 1997, who acts as a sole authoritative body to advise Bank Negara Malaysia (BNM) on Islamic banking and to coordinate Shari’ah issues on Islamic banking and finance and evaluate Shari’ah aspects of new products/schemes submitted by banking institutions.28

*Investment in Shares*

Investment in shares is undertaken in selected Malaysian equities, as permitted by Shari’ah. These include shares of companies in major sectors such as plantation, agriculture, manufacturing, trade, transport, mining, and properties. The amount of equity participation depends on the amount being offered but generally the Tabung Haji does not participate as a major shareholder. In case where Tabung Haji is a substantial shareholder (that is, holding more than 5% equity of a company), Tabung Haji officials are presented on the company’s board of directors. Constant reviews are made by Tabung Haji officials on the activities of the companies to ensure that they comply with the Shari’ah rules. If found otherwise, Tabung Haji will sell off its shares in the company.

Methods of share acquisition are as follows: 29

a) Quoted shares are directly bought in the Kuala Lumpur Stock Exchange while unquoted shares are acquired when issued to the public.

b) Shares allocated for Malays (*Bumiputera*) are purchased through the Ministry of Trade and Industry.

c) Four commercial banks are elected as nominee companies to purchase share for Tabung Haji.30

d) Equity shares are also acquired through partnership or joint ventures with other companies.
Tabung Haji, as a semi-government body and a religious-welfare organization, has been accorded certain privileges in the field of investment. Until 1986, dividends were granted tax exemption, which meant that gross dividend was taken as income when it was paid out. Secondly, since almost all of its member are Malays or other Bumiputera, Tabung Haji is recognized as a source of Malay capital and has been offered special allocations of company shares under the New Economic Policy. This has enabled Tabung Haji to invest in established companies as well as buy shares from newly established companies at par value, which give a good profit if Tabung Haji has to sell these shares in the market.

**Investment in Subsidiary Companies**

As a statutory body, Tabung Haji is constrained both by its own Act and by government regulation in its direct involvement in commercial activities. However, the Act provides for the incorporation of companies under the Companies Act 1965. Currently, twelve companies have been incorporated and wholly or partly (at least 51% stake of shareholder equity) owned by Tabung Haji, in various sectors such as plantation, transport, construction and housing, property management, technologies and information technology, and services.

**Investment in Land and Building**

Activities under this heading involve the construction of buildings for the use of Tabung Haji offices as well as for rental purposes. Potential lots of lands for future development are also bought to form a land bank. Investment on the basis of sale and lease-back method is also undertaken whereby Tabung Haji buys a building and leases it back to its original owner for a specific period.

**Short-Term and Long-Term Investment**

The establishment of the Islamic banks in Malaysia provides Tabung Haji with an avenue to invest its temporary short-terms funds in accordance
with the Islamic principles. Short-term funds meant for hajj expenses are invested in special investment account with the Islamic banks on a profit-sharing ratio of 75:25 in Tabung Haji’s favour. On the other hand, normal short-term surplus in maintained in the current account and invested by the bank, and profits are shared in the ratio of 70:30.\textsuperscript{36}

The prominent long-term investment of Tabung Haji is done in the plantation sector. The development of Tabung Haji’s investment is managed by a special committee charges with the responsibility to assess, analyze and identify investment opportunities in the context of both long-term and short-term investment which is not only halal (permissible) but high growth potential in particular areas which breed competitive market returns.\textsuperscript{37}

\textit{Investment in Money Market, Bond, and Corporate Notes}

With the recent development of Islamic money market in Malaysia, Tabung Haji invested actively in various investment instruments which is innovative such as al-musharakah, al-bai’ bithaman ajil, al-mudarabah and al-qard al-hasan in the form of money market, permissible bond and corporate notes as well as government and unit trust which offer profitable returns.\textsuperscript{38}

\textbf{TABUNG HAJI AS A FINANCIAL INSTITUTION – AN EVALUATION OF PERFORMANCE}

\textbf{Branch Network}

In early years of its incorporation, Tabung Haji started off with very few branch offices. After 3 decades, its branch offices have expanded to 89 units, including a headquarter office in Kuala Lumpur, 85 branch offices distributed in 14 state districts, and 3 branch offices in the Holy Land, each of which located in Jeddah, Makkah and Madinah.\textsuperscript{39}
Profile of Growth – Expansion of Deposit

Table 1 shows that the performance of Tabung Haji can be remarkably classified as a steady growth, irrespective of the economic crisis that has hampered further economic development of the country. Total assets with the Tabung Haji have increased tremendously from RM 2,084 million in 1993 to RM 6,144 million in 1997 and RM 7,306 million in 1998. Total number of depositors has risen from 2,347,684 in 1993, of which 167,621 were new depositors, to 3,189,570 in 1997 (2,11,732 were new depositors) and 3,461,270 in 1998 of which 271,720 were new depositors. The increase in the number of depositors caused the amount of deposits to increase from RM 811.9 million in 1993 to RM 2,147.2 million in 1997 and RM 2,954.3 million in 1998, leading the Tabung Haji to have accumulated savings increased from RM 1,885 million in 19993 to RM 6,419 million in 1997 and RM 6,753 million in 1998.

Table 1: Overall Growth of Tabung Haji During 1993-1998

<table>
<thead>
<tr>
<th>Years</th>
<th>Total Asset (RM million)</th>
<th>Number of Depositors</th>
<th>New Depositors</th>
<th>Total Deposits (RM million)</th>
<th>Accumulated Savings (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>2,084.0</td>
<td>2,347,684.0</td>
<td>167,621.0</td>
<td>811.9</td>
<td>1,885.0</td>
</tr>
<tr>
<td>1994</td>
<td>2,608.0</td>
<td>2,536,582.0</td>
<td>188,898.0</td>
<td>956.9</td>
<td>2,268.0</td>
</tr>
<tr>
<td>1995</td>
<td>3,425.0</td>
<td>2,737,567.0</td>
<td>200,898.0</td>
<td>1,278.2</td>
<td>3,113.0</td>
</tr>
<tr>
<td>1996</td>
<td>4,699.0</td>
<td>2,977,838.0</td>
<td>240,271.0</td>
<td>1,763.2</td>
<td>4,272.0</td>
</tr>
<tr>
<td>1997</td>
<td>6,144.0</td>
<td>3,189,570.0</td>
<td>211,732.0</td>
<td>2,147.2</td>
<td>6,419.0</td>
</tr>
<tr>
<td>1998</td>
<td>7,306.0</td>
<td>3,461,270.0</td>
<td>271,720.0</td>
<td>2,954.3</td>
<td>6,753.0</td>
</tr>
</tbody>
</table>


It was in 1997 that the crisis had affected the number of new depositors to contract by about 12%. This was likely because of the panic that spread all over the country, which led to loss of confidence of the people towards several financial institutions including Tabung Haji. However, the panic subsided in the
following year showing by the approximately 28% increase of the number of 
new depositors. Furthermore, in the year of the crisis, it was surprising to the 
Tabung Haji to receive large amount of deposits of RM 2.147 billion. This was 
beyond the target to the expected amount of RM 1.90 billion on the eve of the 
crisis made by Tabung Haji. Thus it can be concluded that the panic from the 
crisis did not lessen the public confidence and support towards Islamic financial 
institution like Tabung Haji. The crisis has done least or no impact on the 
performance and operation of the Tabung Haji as well as on the aspiration of 
the Malaysian Muslims to fulfill their religious duty of performing hajj.

The increase of the number of new deposits that was beyond target was 
mainly due to the efficient operation of the Tabung Haji at national and regional 
levels. Coupled with its various schemes of savings that provide more 
convenient to the public to make their savings for the hajj. It was in 1997 that 
the Tabung Haji has introduced new product of savings and investment 
scheme, namely Employee Provident Fund Investment Scheme (EPF 
Investment Scheme) or SKim Pelaburan Ahli Kumpulan Wang Simpanan 
Pekerja (KWSP) that received well support from the employee.40

Distribution Methods of Deposits Collection

Table 2: Method of Savings Collection (1996-97)

<table>
<thead>
<tr>
<th>Method of Savings</th>
<th>1996</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(RM million)</td>
<td>%</td>
</tr>
<tr>
<td>Salary Deduction</td>
<td>468.5</td>
<td>26.6</td>
</tr>
<tr>
<td>Counter Collection and Campaign</td>
<td>1,236.5</td>
<td>70.0</td>
</tr>
<tr>
<td>Post Office</td>
<td>48.4</td>
<td>2.7</td>
</tr>
<tr>
<td>EPF Investment Scheme</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>10.9</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Table 2 shows data on deposits accumulated by various methods of collection. It was evident that the savings through counter collection and campaign represented the largest category followed by the method of salary deduction while other three categories constitute merely 3.4 percent of the total savings.

With the sophisticated system of salary deduction for dependent’s account through Computerizing Credit Savings System introduced since 1993, the collection of savings on this method for the period of 1996 and 1997 showed substantial amount of deposits to the Tabung Haji which are illustrated in table 3 below.

**Table 3: Amount of Savings Collected Through Computerizing Credit Savings System During 1996 and 1997.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer Bill</th>
<th>Depositors Bill</th>
<th>Total Amount (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>60</td>
<td>281,659</td>
<td>340.0</td>
</tr>
<tr>
<td>1997</td>
<td>73</td>
<td>285,022</td>
<td>368.4</td>
</tr>
</tbody>
</table>

Source: Tabung Haji, Annual Report 1997, p.38

According to Radiah Abdul Kader\(^4\), categories of depositors can be classified mainly as: (1) intending pilgrims; (2) employees in the government and private sectors; (3) ordinary depositors; and (4) students and children. She refers that 5 percent of the depositors in a given year open accounts for the sole purpose of performing pilgrimage.\(^5\) These intending pilgrims would deposit a substantial lump sum several months before making registration for the *hajj*. This has several implications. This indicates that intending pilgrims have not used the savings facility of Tabung Haji, which is designed to mobilize savings on a gradual incremental basis. The lump sum could come from conservative savings outside the financial framework or from the sale of assets. This shows that a preference of holding assets in liquid or semi-liquid form is
still inherent. Thus, first of all, one may surmise that the savings habit of the Muslims has not changed much. Secondly, since Tabung Haji does not allow withdrawals before the intended pilgrimage, some savers are quite reluctant to lock up a large sum of deposits with the Board. It is preferable for them to save elsewhere and then transfer their funds into Tabung Haji just before pilgrimage. Thirdly, for intending pilgrims who are pensioners, on attaining the age of fifty-five, the lump sum deposited in Tabung Haji could come from compulsory savings withdrawn from the Employees Provident Fund.\(^{43}\)

However, these situations may have changed with the new attractive devised products of Tabung Haji related to savings and investment schemes, which promote gradual savings, as well as its relaxation in relation to withdrawal process. These conditions will obviously improve banking habits of the intending pilgrims in future.

The role of the post office as a collection agent has been declining compared to its important role in the 1970s when the post office collected over 50% of the total savings each year.\(^{44}\) One possible reason for this is the availability of more Tabung Haji branches all over the country. Apart from the purpose of making deposits, depositors may find it more convenient to go to the Tabung Haji branch office where they can get answers to problems, which cannot be solved by the postal clerks.

As regards savings among, in 'other' category, students and the young, the sum involved seems insignificant and its growth has been sluggish over years. However, the proportion of depositors from this group is quite significant amounting for more than a quarter of the total depositors.\(^{45}\) This group consists of potential long-term savers, which is, off course, conducive to long-term investment purpose of the Tabung Haji. This sector of deposit should be encouraged, despite that it may not generate much additional savings to the Board, but rather for the development of the savings habit among the young Muslim children. Their habit with the process of savings and investment will
be a substantial benefit to the Tabung Haji and to the country when they grow up and enter into employment career.

**Withdrawal of deposits**

Total withdrawals and their purposes can be comparatively studied from the following table 4. Total amount of withdrawals had been increased in each year, despite dropping in 1995, reflecting from the increase in the number of deposits made by increasing number of depositors and also the evolution of the methods of withdrawals as well as the relaxation of the period for making withdrawal in 1997. This can be seen that in the year 1997, the normal withdrawal alone accounted for more than RM 1,000 million where as in previous year this type of withdrawal amounted to less than RM 700 million, or the increase was around 50% which was very high. The withdrawal for the purpose of pilgrimage, however, has undergone substantially decreasing. This can be illustrated from data given in Table 4. In 1994, 36.57% of total amount of withdrawal was made for the pilgrimage purpose, whereas after few years, this portion has been reduced to 23.1% in 1996 and merely 7.3% in 1997. One can conclude here that the rules governing withdrawals have, to some extent, helped Tabung Haji to achieve its objective of enabling Muslims to save for the pilgrimage. On the other hand, among withdrawals not for the hajj purpose, the normal withdrawal constitutes the largest portion registered at 73.6 percent in 1996 and 88.6% in 1997. Latest development of the Tabung Haji service has been its introduction of withdrawal for the purpose of 'Umrah' on 6th November 1997. The amount withdrawn for umrah purpose at 31st December 1997, almost two months after its launch, registered at RM 1.79 million or 0.2% of the total withdrawal. The trend of the withdrawal for umrah purpose is likely to increase due to, among other things, the time-flexibility of umrah that can be performed many times in a year, unlike hajj that has to be conducted once in a specific period and duration of time in a year.
Table 4: Total Withdrawals and Their Purposes During 1994-1997

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM million</td>
<td>%</td>
<td>RM million</td>
<td>%</td>
</tr>
<tr>
<td>a. Pilgrim Purpose</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. At Malaysia</td>
<td>256.59</td>
<td>34.11</td>
<td>203.71</td>
<td>26.24</td>
</tr>
<tr>
<td>2. At the Holy land</td>
<td>18.51</td>
<td>2.46</td>
<td>21.18</td>
<td>2.79</td>
</tr>
<tr>
<td>Total</td>
<td>275.10</td>
<td>36.57</td>
<td>224.89</td>
<td>29.03</td>
</tr>
<tr>
<td>b. Other Purposes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Normal withdrawal</td>
<td>458.25</td>
<td>60.92</td>
<td>442.47</td>
<td>68.08</td>
</tr>
<tr>
<td>4. Monthly bonus scheme</td>
<td>5.87</td>
<td>0.78</td>
<td>8.56</td>
<td>1.10</td>
</tr>
<tr>
<td>5. Death of depositor</td>
<td>13.02</td>
<td>1.73</td>
<td>14.02</td>
<td>1.79</td>
</tr>
<tr>
<td>6. Umrah</td>
<td>0</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>477.14</td>
<td>63.43</td>
<td>445.05</td>
<td>70.97</td>
</tr>
<tr>
<td>Grand total</td>
<td>752.24</td>
<td>100.00</td>
<td>669.94</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Investment Activities

Investment activities of Tabung Haji are carried out under the Shari'ah principles of *mudarabah* (profit-sharing), *musharakah* (partnership), *ijarah* (leasing), *bai' bithaman ajil* (mark-up deferred sale), *istisna'* (manufacturing contract) and *qard hasan* (benevolent loan). Backed by the Investment Advisory Council, which provides sound advice and supervision over investment matters, Tabung Haji has embarked on multifaceted investment projects in conformity with Shari'ah guidelines with strong growth potential thus assuring high returns to depositors.

Investment in share in 1997 of Tabung Haji amounted to RM 1,130.28 million against RM 555.88 million in 1996. Investment in share of the Tabung Haji is comparatively shown in table 5 below.

**Table 5: Distribution of Investment in Share by Tabung Haji, 1996-1997**

<table>
<thead>
<tr>
<th>Type of (Company's) Share</th>
<th>1996 (RM million)</th>
<th>1997 (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quoted Share</td>
<td>83.20</td>
<td>656.66</td>
</tr>
<tr>
<td>Unquoted Share</td>
<td>150.00</td>
<td>65.55</td>
</tr>
<tr>
<td>Subsidiary Company</td>
<td>138.00</td>
<td>43.68</td>
</tr>
<tr>
<td>Share of Trade</td>
<td>174.08</td>
<td>364.39</td>
</tr>
<tr>
<td>Banks</td>
<td>10.00</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>555.88</strong></td>
<td><strong>1,130.28</strong></td>
</tr>
</tbody>
</table>

Source: *Tabung Haji, Annual Report 1997*, p33

Total accumulated investment asset in share as at end of 1997 of the Tabung Haji accounted for RM 2,979.10 million, in which share investment asset in quoted share amounted to RM 1,465.94 million or 49.21 per cent of total, unquoted shared asset accounted for RM 607.01 million or 20.38 %,
share in trade RM 516.73 million or 17.34%, share in subsidiary companies RM 360.15 million or 12.09% and share in banks RM 29.27 million or 0.98%.\textsuperscript{47}

Investment in subsidiary companies are undertaken to enable Tabung Haji to participate actively in economic activities. The rapid development of investment activities and the role played by Tabung Haji in the economic expansion of the country have diversified with the setting up of 100% owned subsidiaries or at least 51% stake of the shareholders equity. To date, Tabung Haji has established subsidiaries involved in various sectors such as Tabung Haji Plantations Sendirian Berhad, Tabung Haji Travel Industries Sendirian Berhad, Tabung Haji Properties Sendirian Berhad, Tabung Haji Global Services Sendirian Berhad, Tabung Haji Universal Builders Sendirian Berhad, Tabung Haji Computer Recovery and Services Sendirian Berhad, Tabung Haji Technologies Sendirian Berhad, and Ladang Tabung Haji Holding Sendirian Berhad.\textsuperscript{48}

Investment in land and building as at 31st December 1997 amounted to RM 308.7 million, including 2 finished buildings, 7 unfinished buildings, 6 purchased buildings and 3 purchased pieces of land. Tabung Haji, in all, owned 90 buildings (big and small) all over the country and 2 buildings in the Kingdom of Saudi Arabia. These buildings are utilized either for its own use or for rental purpose. In 1997 alone, Tabung Haji obtained RM 29.5 million of income as rent, increasing by 6.9% of the rent received in 1996 which was RM 27.7 million. These buildings have been in the maintenance of the Real Estate Management Division of which every year 30% of the total rental income will be allotted for the purpose. However, the maintenance of the Tabung Haji headquarter office in Kuala Lumpur is conducted and taken care by the Tabung Haji Global Services Sendirian Berhad, a wholly-owned subsidiary of Tabung Haji. Maintenance services include activities such as cleaning, securities keeping, technical assistance and so on.\textsuperscript{49}
Investment in money market instrument and corporate note in 1997 took the form of the following specifications illustrated in Table 6.

**Table 6: Types of Investment and Their Methods of Finance (1997)**

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>Method of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Islamic Acceptable Bill</td>
<td>Murabahah</td>
</tr>
<tr>
<td>2. Commercial Paper</td>
<td>Mudarabah</td>
</tr>
<tr>
<td>3. Investment (General/Specific)</td>
<td>Mudarabah</td>
</tr>
<tr>
<td>4. Commodity Investment</td>
<td>Murabahah</td>
</tr>
<tr>
<td>5. Government Investment Certificate</td>
<td>Qard hasan</td>
</tr>
<tr>
<td>6. Dept/Bond Defrayal</td>
<td>Bai' bithaman ajil/ijarah</td>
</tr>
<tr>
<td>7. Equity-Mudarabah</td>
<td>Musharakah/ijarah</td>
</tr>
</tbody>
</table>

*Source: Tabung Haji, Annual Report 1997, p.35*

During the year 1997, investment of Tabung Haji in money market amounted to RM 1,652.24 million against RM 1,850.65 million in 1996. The decrease was due to Tabung Haji large commitment in long-term investment sector. The amount invested is distributed as follows in Table 7.

**Table 7: Distribution of Amount of Investment in Money Market, 1996-1997**

<table>
<thead>
<tr>
<th>Type Of Investment</th>
<th>Up to 31/12/1996 (RM million)</th>
<th>Up to 31/12/1997 (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Investment Certificate</td>
<td>35.51</td>
<td>15.27</td>
</tr>
<tr>
<td>Islamic Acceptable Bill</td>
<td>1,067.71</td>
<td>782.35</td>
</tr>
<tr>
<td>Investment (General/Specific)</td>
<td>747.43</td>
<td>324.00</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>-</td>
<td>530.62</td>
</tr>
<tr>
<td>Total</td>
<td>1,850.65</td>
<td>1,652.24</td>
</tr>
</tbody>
</table>

*Source: Tabung Haji, Annual Report 1997, p.36*
During the year 1997, Tabung Haji had given more emphasis in the investment of commercial paper due to its great advantages in terms of liquidity and profitability.\(^\text{50}\) Investment in the corporate sector instrument of the Tabung Haji during 1996-97 amounted to RM 331.37 million and RM 330.95 million respectively. In terms of distribution, investment in corporate sector instrument can be categorized in the following Table 8 below.

**Table 8: Composition of Investment in Corporate Sector During 1996 and 1997**

<table>
<thead>
<tr>
<th>Types of Investment</th>
<th>Up to 31/12/1996 (RM million)</th>
<th>Up to 31/12/1997 (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Note</td>
<td>135.51</td>
<td>102.97</td>
</tr>
<tr>
<td>Bond</td>
<td>180.30</td>
<td>207.27</td>
</tr>
<tr>
<td>Unit Trust</td>
<td>15.56</td>
<td>20.71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>331.37</strong></td>
<td><strong>330.95</strong></td>
</tr>
</tbody>
</table>


During 1997, Tabung Haji had allocated 75% of its total long-term investment in the plantation sector.\(^\text{51}\) As regard *hajj* operation, Tabung Haji had exercised spot purchase of Saudi rial currency for an amount of SR 146.80 million in 1997 against SR 119.60 million for the purpose of *hajj* management of the Board and *hajj* performance of the pilgrims in 1996. The depreciation of Malaysian ringgit that took place in the second half of the year 1997 did not cause any hardship to the *hajj* performance and management which was administered in the first quarter of the period.\(^\text{52}\)

Since early 1996, Investment activity in the Islamic Money Market has expanded so quickly following the effort of the Bank Negara Malaysia in its encouragement for intensive activity in the Islamic Inter-bank Money Market. As a financial institution, Tabung Haji’s participation has gained advantage form
such expansion especially in terms of decision-making and strategic planning in its investment activity in the market for better benefit and reducing associated risk provided by a wide variety of investment instruments available.\textsuperscript{53}

**Financing Facilities for Staffs and Pilgrims**

To promote well-being of its staffs, Tabung Haji provides credit facilities for buying house/vehicle based on the principle of \textit{bai' bithaman ajil}. Tabung Haji was the first quasi-government body to implement this scheme.\textsuperscript{54}

In line with its objective regarding the welfare of pilgrims, Tabung Haji provides interest-free loan on the basis of \textit{qard hasan} (benevolent loan) to needy pilgrims during their pilgrimage in the Holy Land lacking of sufficient money. Pilgrims are requested to repay their debt upon their return to Malaysia.\textsuperscript{55}

**Income from Investment**

Income received by Tabung Haji is derived from its investments. There are five types of major incomes, namely:

1. dividend from investment in shares;
2. rent from building;
3. profit from investment with Islamic bank;
4. profit from the sale of shares; and
5. miscellaneous earnings.

As shown in Table 9 below, income received by the Tabung Haji has been progressive over the four-year periods (1994-97). Dividends from investment in shares made the largest contribution of income to the Board during the period 1994 to 1995. But, however, this type of contribution of income had been surpassed by the profits from the sale of shares in the later
two periods (19996-97). Profits from investment in bank and rental income constitute remarkable sources and had been steadily increased over the four-year periods, whereas income from miscellaneous items showed a tendency of fluctuation and is likely to be on contractual trend.

Table 9: Distribution of Income During 1994-1997

<table>
<thead>
<tr>
<th>Type of Income</th>
<th>RM million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend from Share</td>
<td>105.6</td>
</tr>
<tr>
<td>Rental Income</td>
<td>24.6</td>
</tr>
<tr>
<td>Profit from Investment in Bank</td>
<td>50.1</td>
</tr>
<tr>
<td>Profit from Sale of Share</td>
<td>108.7</td>
</tr>
<tr>
<td>Miscellaneous Earnings</td>
<td>7.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>296.1</strong></td>
</tr>
</tbody>
</table>


In 1997, Tabung Haji had incurred total expenditure of RM 87.9 million comparing to RM 84.9 million in 1996. This provided profit before zakat (on commerce) to the Tabung Haji on amount of RM 574.4 million in 1997 against RM 373.0 million in 1996.86

Appropriation of Tabung Haji’s Profits

Table 10 shows that profits accrued to Tabung Haji for the 1994-1997 period had been steadily increasing. Under its Act of Incorporation, Tabung Haji is required to maintain statutory reserves amounting to not less than a certain percentage of its total eligible liabilities (total deposits plus bonus payable). Unlike the statutory reserves of commercial banks, which are fixed by the
Central Bank, BNM, the reserves in the Tabung Haji are determined by the Board, subject to approval by the Ministry of Finance. For the purpose of prudent financial management policy, Tabung Haji has also appropriated the portion of its profits as general reserves, depending on the amount of profits made annually.\textsuperscript{57}

**Table 10: Distribution of Tabung Haji’s Profit During 1994-1997.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Profits (before zakat) (RM million)</th>
<th>Zakat (on commerce)* (RM million)</th>
<th>Bonus (after zakat) (RM million)</th>
<th>Rate of Bonus (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>220.8</td>
<td>5.9</td>
<td>178.9</td>
<td>9.5</td>
</tr>
<tr>
<td>1995</td>
<td>258.1</td>
<td>6.2</td>
<td>236.5</td>
<td>9.5</td>
</tr>
<tr>
<td>1996</td>
<td>373.0</td>
<td>9.8</td>
<td>327.5</td>
<td>9.5</td>
</tr>
<tr>
<td>1997</td>
<td>574.4</td>
<td>13.9</td>
<td>440.4</td>
<td>9.5</td>
</tr>
</tbody>
</table>


* zakat on wealth was not mentioned in the reports.

**Payment of Zakat**

Tabung Haji has been paying zakat (on wealth and commerce) since 1980. The rate of zakat is 2.5% on the sum of profits earned and the amount of working capital at the end of the zakat financial year. The question of zakat was raised some years ago but a clear fatwa (decree) was issued to the management of Tabung Haji only in 1979. Zakat payments are made to the Islamic Religious Department in each state, which in turn redistributes the zakat fund among the various beneficiaries. The amount received by each state is based on the credit balance of the depositors in the respective states.\textsuperscript{58} Zakat payment (on commence) by Tabung Haji in 1997 amounted to RM 13.9 million as shown in Table10. Total accumulated zakat payments that have been exercised by the Tabung Haji since 1980 amounted to RM 68.3 million, clearly a significant contribution to the well-being of the needy section of the Malaysian society.\textsuperscript{59}
Payment of Bonus

A large portion of Tabung Haji net profits is distributed to depositors in the form of bonus. The annual rate of bonus varies, depending on profits made. However, at times when profits are very low, part of Tabung Haji general reserves are used to pay reasonably high bonuses. As a result, Tabung Haji has been able to offer a competitive rate of return to depositors at 9.5% sequentially for the following 4-year periods as shown in Table 10. This bonus at 9.5% rate is comparatively higher than market rate of return to depositors paid on savings account.60

The amount of bonus paid to individual accounts was, as in 1997, based on the monthly minimum balance in the depositors’ accounts between 1st January 1997 and 31st December 1997, and that the bonus paid would be credited to their accounts. As at 31st December 1997, the total amount of bonus paid by Tabung Haji was RM 440.4 million, increasing by RM 112.9 million or 34.4% from RM 327.5 million in 1996.61

MANAGEMENT OF HAJJ AFFAIRS

Management of hajj affair for the benefit of Malaysian pilgrims is also an important function of Tabung Haji and its contribution in this field has been remarkable. Its detail study is beyond the scope of this research, so we skip this discussion.62

EVALUATION OF PERFORMANCE AND CONCLUSION

Tabung Haji is a financial institution of a special kind. Although it mobilizes funds from savers and channels them to investors, it is not a financial intermediary. Tabung Haji is essentially a service organization. It acts as a banker to its members and when they decide to perform the pilgrimage, Tabung Haji caters for their needs. The economic activities of Tabung Haji emanate from its role as a banker to its members whereby it attempts to convert their deposits into profitable investment.
Tabung Haji’s performance can be evaluated from two aspects, viz: (1) its success in achieving its aims and objectives and (2) its contribution to the development process.

Looking at the growth of the size of its deposits, and the number of its depositors over the years, it is apparent that Tabung Haji has been successful in achieving its aims of enabling Muslims to save for the purpose of performing the hajj. When it was first formed in 1963, the organization had only 1,281 members with a total savings of RM 46,600. As at 31st December 1998; its members totaled 3,461,270 with total accumulated savings of RM 6,753 million. The concept of pilgrim management through Tabung Haji has also been internationally well accepted and recognized.

In terms of economic development, Tabung Haji’s major contribution ‘comes from the means and opportunity it provides for the gradual institutionalization of savings’ among Muslims. Prior to its establishment, savings by traditional methods were not made available for investments that could contribute to development. With its formation, Muslims were motivated to hold their savings in a form, which is socially desirable. Funds started to flow from two sources, viz., from a reduction of unproductive non-institutional forms of savings and from savers who were motivated purely on religious grounds, which was to save only in an institution, which conformed to Islamic Shari‘ah. As a result, resources, which could have been hoarded or held in the form of semi-liquid assets, have now entered the financial network available for development purposes.

With respect to the number of depositors, of approximately 12 million Malays in the country, about 3.5 million or 29 % are members of Tabung Haji, as at the end of 1998. Even though 29 % is a large figure, in which Tabung Haji can take pride, it was challenging that Tabung Haji had to strive towards obtaining at least 50% of the Muslim population in Malaysia before end of year
2000, in line with the Prime Minister’s vision. This, however, shows that there is still a bigger segment of the market to be tapped.

One of the major evolutions of Tabung Haji, in terms of deposit mobilization is the recruitment of membership from the rural sector. Although the Board serves both urban and rural communities, greater significance should be attached to the latter for it was the economic plight of this sector, which prompted the establishment of Tabung Haji. One way to attract the potential rural savers is to devise, as done by Tabung Haji, appropriate savings schemes, which would meet their needs and abilities to save.

It is well noted that a common saving behaviour among rural people is the preference to keep funds in forms within their immediate control. The introduction of an arrangement similar to that of savings deposit of commercial banks, which has been already commenced by Tabung Haji, would permit withdrawal on demand. No doubt, this could defeat the purpose of saving for the hajj, but as an inducement Tabung Haji could design and provide a guideline to depositors on the amount of monthly savings required, given the target timing of the proposed pilgrimage. And surely, the purposed pilgrims would attempt to save rather than to withdraw whatever withdrawal facilities are given.

The introduction of various schemes, pertaining to savings of the Tabung Haji can also change the saving habit of the rural people. Under such schemes, people are encouraged to save slowly reducing their hardship of saving huge sum, especially when it comes the time to make a decision either to save or consume.

With respect to Muslim depositors in the existing interest-based institutions, it appears that this group of potential depositors is purely motivated by economic rationality and is sensitive to the rate of return given by such financial institutions. With the good track of performance in terms of the rate of return or bonus that relatively higher than market rate paid by the Tabung Haji, it is likely that in future, the Board will attract more deposits. This is another
challenge to Tabung Haji, which it can overcome to enhance its competitiveness in the industry either by increasing its operational efficiency or by seeking more profitable investment that pays better return, subject, of course, to Shari’ah rules.

Tabung Haji’s second main contribution to the development process lies in its role as the user of investible funds deposited with it. Its increasing annual income from investment illustrates the significant role it plays, as an investment organization, in the economic development of the country. Thus, Tabung Haji has been successful in channeling its resources to specified areas and giving high returns to depositors on their savings. Moreover, under the new Act, section 20 (1), which allows the Tabung Haji to invest wholly or partly within Malaysia or outside Malaysia, the Board is able to extend its business networking globally. This surely lays a good future prospect to the Tabung Haji and general welfare of Muslims in the country resulting from the role it will play, in the wake of globalization trends everywhere.

Several factors, apart from monopoly status, well management and operation of Tabung Haji, responsible for the success of the Tabung Haji must be, of course, a social vision after being translated into an action programme backed by an appropriate technical knowledge and political will. From the traditional methods of savings by Malay Muslims to avoid ribā in order to fulfill their last religious pillar, translated and supported by suitable mechanisms materialized through Shari’ah-based savings and investment methods, backed by government body, Tabung Haji has been formed and successfully operated for about 40 years. The success of Tabung Haji may also be attributed, to a great extent, to ‘strong bumiputera psychological factors’ demonstrating that indigenous dominant Malay Muslim community can succeed in business enterprise and corporate management involving integration of Islamic values with corporate philosophy and culture. Again, it cannot be denied that one of the most significant factors responsible for its success lies upon mutual interest that Tabung Haji shares with its client in all aspects.
Although, Tabung Haji is not an Islamic bank, it works very much the same way as an Islamic bank does in terms of mobilizing and utilizing financial resources. It has shown the way how Islamic banks can be established and how they can function successfully. As it also accepts deposit and makes investment. But the profit from investment is supplementary to the primary objective as a haji management institution. Tabung Haji is a good example of how a specialized saving-oriented financial institution can work successfully in accordance with the Islamic principles which have been replicated by many Islamic banking and financial institutions in and outside South-East Asian region.

NOTES & REFERENCES


4. Ibid.

5. The Organization of the Pilgrims Management and Fund Board of Malaysia, *Tabung Haji as an Islamic Financial Institution - The*


9. Ibid.


12. Ibid.


15. Tabung Haji, op.cit., pp. 6-7.

16. Starting from the 1st of January 1986 (Assessment year 1987), the bonus paid to depositors has been fully exempted from income tax. This exemption is due to the payment of zakat by Tabung Haji on behalf of depositors. [The Organization of the Pilgrims Management and Fund Board of Malaysia, op.cit., p. 16].
17. Tabung Haji, op.cit., p. 10.


19. Islamic Banker, op.cit., p. 3.


21. The ensured fixed monthly income is permissible in this case as it was done by the third party, the government.


23. Ibid.


25. *Islamic Banker*, op.cit., p. 3.

26. The Organization of the Pilgrims Management and Fund Board of Malaysia, op.cit., p. 15.


30. Under this arrangement, it is interesting to note that nomination of commercial banks to purchase share for the Tabung Haji (TH) is done against fees. Despite the competence of the commercial banks to undertake this task, this does not mean that there would be any involvement of interest transaction even though the service is done by the interest-based institution. However, doubt may arise but eventually die down as these commercial banks participate in the Interest-Free Banking Scheme in 1993.


32. Under this policy, companies are required to restructure their equity to reflect local participation in equity ownership, (quoted in Kader, R.A., Ibid, p. 152).


34. Tabung Haji, A Catalyst for the Economic Development of the Ummah, op.cit., p. 11.


36. Ibid, pp. 144-145.


38. Ibid.


43. Kader, R.A., Ibid.

44. Ibid, p. 149.

45. Ibid.


47. Ibid, p. vi.


50. Ibid, p. 36.


52. Ibid, p. 36.


54. The Organization of the Pilgrims Management and Fund Board of Malaysia, op.cit., p. 18.

55. Ibid.


60. Ibid, p. 35.

61. Ibid.


***