

Risk Management of Zakat Management

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Abstract: The problem in this research is management of zakat that need to preserve on the credibility and accountability of the institution of zakat. By maintaining a good reputation and trusted it can facilitate amil in the effort of collecting funds of zakat from the muzakki. Risk management in zakat management becomes very important and strategic. The purpose of this paper is to identify risk factors in zakat management, to identify the impacts of risks, and to identify risk mitigation of zakat management. This writing is a qualitative research where this research uses primary data through practitioner survey and also secondary data. There are four types of risks that have been identified and the world of obligations must have a clear concept in mitigating those risks. First, reputation risk and loss of muzakki; Second, the risk of distribution; Third, operational risk, and the fourth is the risk of zakat transfer between countries. Empowerment of Zakat in order to change the mindset of society that zakat is not solely religious obligation which if not done will sin, but charity has social impact to alleviate poverty. Risk management research is a continuum of steps and efforts towards Shariah compliance in zakat management.

1 INTRODUCTION

1.1 Background

Zakat is one of the very important pillars in Islam. It is mentioned so frequently in the holy book, Al-ul-Karim. Qardawi (2004) notes that some Muslims scholar places; according to him, the word zakat is stated 30 times, while 27 occurrences (90%) are affirmed together with the order of the salat or regular prayers. This indicates how important zakat is in the view of Islam. (See also Adnan and Abu Bakar, 2009, p. 32).

The issues and practices of zakat have remarkably grown in last few decades. Many Muslims have paid attention to the understanding and practices of zakat. Like in Indonesia, many new zakat institutions have been established since the past two decades, either linked with or attached to the Government Institutions, or stand privately. Legally, the Indonesian government has also issued the Zakat Act No. 38 of 1999, which is then renewed or improved by the Zakat Act No. 23 of 2011. The later was even supported by the Government Rule (Peraturan Pemerintah-PP) No. 14, 2014.

Referring to the report published by the Baznas (National Board of Zakat) of Indonesia, it clearly shows how remarkable the growth of zakat collection is. For example, in 2003 the total zakat collected was still Rp.1,307,300,388 equivalent to USD\$ 130.730 (with assumption that USD\$1 = Rp.10,000), but 10 years later, in 2013 the zakat collected jumped up very significantly and reached 72 International Journal of Zakat 2(1) 2017 Rp.50,741,735,216 or equivalent with USD\$5.074.174. This means that the amount is multiplied almost by 39 times within 10 years, or in average the growth is about 3.9% per year steadily. Although the zakat collected has grown significantly, yet it is still much lower than the potential zakat collection. The Baznas recognizes that the current collected zakat is only about 1% of total aggregate potential zakat, which is about Rp. 270T, or equivalent with USD \$270Billion assuming that USD \$1 equal Rp.10,000. This amount is also believed to be the biggest around the world (El-Banjari, 2013).

The management of zakat in Indonesia has been regulated through the Law No. 23 of 2011, replacing the Law No. 38 of 1999. The law prescribes that there are two kinds of zakat organizations in Indonesia, namely BAZNAS (National Board of Zakat),

representing zakat governments throughout Indonesia, and Amil Zakat institutions managed privately or publically with approval and accreditation from the government (the Ministry of Religious Affairs of the Republic of Indonesia). By law, National Board of Zakat has the authority to manage and coordinate with all zakat institutions, in Indonesia. Currently, BAZNAS has 33 representatives across all provinces of Indonesia. Hence, BAZNAS is at frontline in national development, especially related to poverty reduction. To meet their expected goals, BAZNAS and other zakat institutions should adopt precise ways to accurately measure the impact of the program on the welfare of mutashik. The evaluation should especially measure how effective the zakat program has been in improving the lives of mustahik in economic, social, and spiritual aspects.

Risk management is well-established concept in financial industry. However, it is still unknown to the zakat sector. None of zakat institution globally has implemented risk management in its operation, although zakat institution may face risk that can jeopardize zakat operation. For example, ineffective muzakki complaint management may reduce muzakki's trust to zakat institution, and hence, the institution may lose its collected zakat fund. This is an example of risk faced zakat institution that needs to be mitigated and solved. Similarly, failure to provide audited financial report may end up with reputation and credibility degradation. People will question capability and transparency of zakat institutions.

In the light of the importance of risk management, working group on zakat discussing technical notes on risk management for zakat institution was held in Surabaya on Friday (10/28). It was attended by Azrin Abdul Mannan (Pusat Pungutan Zakat – PPZ, Malaysia), Amin Ibrahim (Lembaga Zakat Selangor – LZS, Malaysia), Syed Zafar Mahmood (Zakat Foundation of India), Abdallaahi Mohamed (IRTI – IDB), Nana Mintarti (Board Member of BAZNAS), and Ascarya (Bank Indonesia). A team of Puskas BAZNAS comprising Irfan Syauqi Beik, Muhammad Hasbi Zaenal and Khonsa Tsabita also attended the meeting (Beik, 2015).

The working group was discussing four groups of risk: country and transfer risk, reputation risk and lack of confidence, allocation risk, and operational and shariah compliant risk. There were 8 types of risks identified for the first group of risk along with their definitions and indicators. Meanwhile, 14, 9 and 16 types of risk were identified for the second, third and

fourth group of risk, respectively, along with their definitions and indicators as well.

These risks should be mitigated and managed. Otherwise they may create problems that endanger entire zakat system and operation. Dedicated unit handling risk issues should be established within the zakat organization.

In the context of zakat management, then one of the things that need to be maintained is the credibility and accountability of zakat management institutions. Do not let the public distrust due to errors and violations in the management of zakat.

Maintaining a reputation for zakat amil institutions is very important. By maintaining a good reputation and trusted, it can facilitate amil in the effort of zakat fund collection from the muzakki. Any form of misconduct and violation in the management of zakat has the potential to create a bad image of the institution that has an impact on the risk of losing muzakki.

1.2 Innovation

Risk management in zakat management becomes very important and strategic. So far we know the term of risk management in banking and industry in general. Whereas zakat institutions also require the management of these risks. The term of risk management in the management of zakat is something that is not commonly heard. In contrast to the sharia and conventional banking industry where they are well acquainted with the term of risk management and even able to identify what is included in the types of risks that must be managed. The goal is for banks to minimize the possibilities that will have a negative impact on the growth of their industry.

2 LITERATURE REVIEW

2.1 Zakat

Zakat according to the term language is growing, while the zakat according to the term fiqh is a certain amount of property that is required by Allah SWT to be handed over to the rightful ones. The word zakat means growing, purifying (sanctifying), improving, which means self-cleansing obtained after the obligation to pay zakat. (Qardawi, 2001).

Zakat is not something new in the eyes of Muslims. Muslims strongly believe that zakat is one of the pillars of Islam. Most Muslims also believe that

zakat has an important role in economic empowerment of people.

Zakat has a main role in the creation of justice in the economic field, in which all citizens have a source of revenue and income to fulfill daily needs for their life. In management of the use of zakat funds, the most important is the role of *amil zakat* (read: Zakat Institution) as bearers of the trust in management of the zakat funds. If the *amil zakat* is good in its management, then eight of zakat receipts (*ashnaf*) will be good anyway. But if the *amil zakat* is not good in its management, it should not be expected to *ashnaf* will be good too, that is essence of the *amil zakat* strategic. In other words, the most important thing of zakat is how to manage the use of zakat funds (management). Zakat Institution (OPZ) is the intermediary organizations based on social.

The entire of operating expense is taken from the zakat and *infaq* funds collected. It is also justified by Sharia, because zakat institutions (OPZ) committee is *Amilin zakat* that also included in eight *ashnaf* eligible for Zakat. The portion used for operation activities and *Amilin's* salaries.

Zakat system comprising of zakat institution, zakat collector, zakat recipients (*'ashnaf*), and zakat payer (*muzakki*) elements, has started to re-emerge in some Muslim populated countries. Some of them have already had a well-designed operating guidelines and regulations. However, in general, the development of Zakat system is still in the early stage. To foster the development of Zakat system, it can take the benefit from the advancement that has been achieved in the financial market. Learning from institutional theory, institutional environment that covers strong legal environment and regulatory environment, good governance, and socio-economic impacts are among the important aspects that the Zakat system can learn from. In the absence of institutional environment for Zakat development, there will be the absence of governing rules or common grounds for Zakat institutions worldwide. Thus, an international collaboration in terms of working group is deemed necessary to explore the potential of zakat development in the future. The working group came up with principles for effective and efficient zakat operation including the legal foundation, governance, risk management, financial integrity and etc.

3 METHODOLOGY

The present study is a qualitative analysis of data obtained through a survey of professional in zakat

institutions. Qualitative method was used in this study. This method involves collecting data from secondary data. The secondary data was obtained through library research.

This research is using primary data, which is obtained by doing in-depth interview with experts from zakat institutions. In order to synthesize the problems and make it in priority, second meeting (interview) with experts is needed to complete pairwise questionnaires. In order to choose respondents in this research is by considering their understanding about zakat development. The amount of respondent consists of three experts related to the topic discussed. There is no maximum or minimum quotes to choose respondent, the most important things to be considered is they must have good ability and good understanding about risk management of zakat management .

4 RESULTS AND DISCUSSION

4.1 Risk of Zakat Management

It is not easy to identify the risks of non-profit organizations and their mitigation, as all risks are connected to all aspects of organizational decision making. Identification of zakat institutional risk refers to the identification of risk of non-profit institutions.

Therefore, it should be noted that there are two aspects related to the risk of disbursement, i.e. from the management side or zakat institution itself and from the negative impact of zakat fund distribution to *mustahik*. From the management or zakat institution is obliged to ensure that the process of channelling zakat funds in accordance with the agreed operating system procedure. The distribution of zakat funds must have clear and measurable indicators. Things that need to be clarified in the disbursement of zakat funds, among others; standard of *mustahik* indicator, poverty limit, effectiveness and efficiency of fund distribution, time limit of distribution, service standard, operational cost ratio of distribution program, etc. In other words, Good Governance principles such as transparency, accountability, responsibility, legal certainty, professionalism, proportionality, etc. should be implemented in the management of zakat. Moreover zakat is a religious service (not just managing finances). In the context of zakat management should consider the conformity of sharia (sharia compliances).

4.2 Risks in the Process of Raising Funds

In collecting zakat funds from the muzakki, zakat institutions will face several risks, including the risk of trust from the muzakki when entrusted funds to the zakat institution. There are still many people who do not believe that the funds to be entrusted it will reach the hands of the mustahik, both in terms of quantity of funds and whether or not the delivery of funds. The public assumes that the nominal zakat will decrease as it is channelled to the mustahik for administrative matters. In addition, people also do not know where the zakat funds will be distributed or in other words not transparency which local community will be disbursed zakat funds. This is what makes people less believe that zakat funds will be on target in accordance with the expectations of society so that people feel more satisfied and calm if the zakat funds distributed individually.

The risk above is due to lack of socialization and education to the public regarding the tasks and profiles of zakat institutions and the advantages gained by entrusting zakat funds in zakat institutions. Starting from the society's assumption about the zakat institution that the zakat institution already has lists of people who are entitled to receive the zakat funds and zakat institutions have made a priority list of people who first to be disbursed the zakat funds. This is what needs to be socialized to the public.

Other causes of the risks above, namely the lack of education and supervision of human resources institutions zakat (amil or zakat officer). The amil needs to be educated on how to receive zakat funds from the community, either from the administrative process or from the process of collecting the funds from the community (whether sorted or mixed together).

From these risks, can be solved with some solutions of the following:

- Provide regular socialization to the public about the profile and role of zakat institutions in managing zakat funds
- Zakat institutions should be able to blend in other ways to make people believe in the role of zakat institutions
- Providing education to amil zakat in the process of collecting funds from the muzakki, both from the administrative process and from the process of collecting the funds of the zakat from the community in accordance with the approved agreement.

4.3 Risks in the Process of Managing Funds

In the process of managing the funds, the zakat institution is tasked with ensuring that the zakat funds received are able to meet the number of zakat receivers. The zakat institution will arrange for the zakat funds that they collect can be channelled to the post (ashnaf) in accordance with the recommended and established by Islamic Shari'a.

In the process of managing this fund, zakat institutions will face the risk of incompatibility of the amount of funds raised by the number of mustahiq they have listed. This can happen because too much the number of priorities of the mustahiq and could also be due to lack of expert amil in dividing the funds he collected.

In addition, with regard to the function of zakat funds, zakat institutions have only managed funds for the mustahiq for consumptive purposes only, not for productive interest that can be sustainable. From the fact that it can be said that zakat institutions can also face the risk of zakat management of productive funds that are still lacking (not appropriate).

From these risks, can be solved with some solutions of the following:

- Amil zakat should be more complete in listing the eight ashnaf and more thoroughly in making the list of priorities of the recipients of zakat.
- Educate the amil so that experts in managing zakat funds
- Adding donor funds by keeping trust of donors (muzakki).
- Make standardization and guidance in zakat management.
- Cooperate with other parties to create a consumptive and productive management of zakat funds.

4.4 Risks in Fund Disbursement Process

In the process of distributing zakat funds, zakat institutions will face the risk of improper targeting and the level of efficiency and effectiveness level of less channelling. The risk of improper targeting can be due to the lack of data of the mustahiq belonging to the depth of ashnaf. This can happen because of lack of understanding zakat amil about the criteria of each class of eight ashnaf. In addition, this can also occur because the zakat amil to charge to distribute zakat funds is not mandatory. As a result, the distribution of zakat funds becomes uneven and there will be parties who are tyrannized.

The risk of efficiency level and level of effectiveness of disbursement that is less related to the function of the fund disbursed or can be said with the risk of inappropriate fund utilization.

From these risks, can be solved with some solutions of the following:

- Chosen zakat amil must be honest and trustful
- The zakat institution needs to do routine education to understand the criteria of each of the eight ashnaf
- The zakat institution needs to supervise and control the amil in charge of distributing zakat funds, whether it really has reached the parties that really need
- Strong administrative and reporting systems
- Cooperate with other parties to create a consumptive and productive management of zakat funds.

Simply put, risk can be interpreted as a situation that can create opportunities for a threat that can cause negative impacts of loss of something valuable, such as reputation and trust. According to Godfrey (1996), when referring to an analysis of the probability of occurrence of the risks and the effects of those risks, there are four possible levels of risk acceptability: unacceptable, undesirable (risk should be avoided), acceptable (acceptable but manageable risks), and negligible (negligible risk because it has no significant effect).

With these four levels of risk acceptance, zakat institutions need to identify with regard to any risks that may arise in zakat management activities, how they impact, and how to mitigate those risks through appropriate and effective actions and steps. During this time, risk management has not been well known in the world of zakat management. In fact, there are many negative impacts that can be generated when an event that actually can be anticipated before through the implementation of good risk management.

For example, in the distribution of zakat for the scholarship program, then among the risks that may occur is the risk of delay in the process of disbursing the scholarship funds to the mustahik account. Though this delay has the potential to create problems, namely the issuance of the mustahik from the school / campus where he studied. If this happens, then it is potentially damaging the good name of the zakat institution.

Therefore, appropriate mitigation measures are required. For example, by contacting the school authority / campus where the mustahik study is concerned. If this is done, it is necessary to regulate who the amil officer is responsible for contacting the

school / campus and conveying information on the delay of this disbursement.

Another example is the risk of zakat collection. For example, the risk of lack of information on zakat management by institutions to the muzakki, whereas they have zaked regularly to the institution. The implication that can be caused is the decreasing of trust level of muzakki to the institution. Therefore, appropriate mitigation measures are needed. For example, by hastening regular reports of zakat management to muzakki directly with accompanying apologies for the delay in submitting this information. It should be incorporated into standard operating procedures of the institution.

The development of the world of zakat and Islamic philanthropy is now growing rapidly and requires good risk management capabilities in order to continue to be trusted by the community. The world of zakat and Islamic philanthropy is now increasingly dynamic. At the same time, the higher the ability of zakat institutions to manage zakat, infak and alms in Indonesia. In this situation also required public trust in zakat management institution (LPZ). And to continue to maintain the trust given by this society, zakat institutions must be able to show the quality of management is good and transparent.

In order for the info to be more widespread, there should be adequate information from zakat institutions. How do they take care of themselves seriously so as not to deviate from the trust given by society to the existing zakat institution. Society must know and also understand that there are efforts to safeguard, commitment and supervision of the values of honesty and goodness in managing zakat.

In its implementation, an institution of zakat must have clear systems and procedures in collecting, managing and utilizing its institutions. This is none other because zakat institutions manage community trust and every mandate must be accounted properly through various methods and approaches. Nevertheless, the future of this modern zakat management will rely heavily on public trust.

This belief itself is not a blank check, there must be proving the ability of zakat management institutions in maintaining this trust in its real form, especially in maintaining the reputation of each institution. And speaking of this reputation, it turns out he entered into the risk management of zakat management.

5 CONCLUSIONS

According to research, it is known that the characters muzakki (donors) today want to know where their zakat funds channelled. This shows the urgency of risk mitigation of zakat distribution to priority for review because it is associated with other risks. Because one of the performance achievements amil zakat now began to shift no longer simply measured from how zakat funds collected, but how much benefit is perceived by the recipient of zakat funds. But also amil zakat demanded to be able to transform mustahik conditions become independent.

The distribution of zakat funds must have clear and measurable indicators. Things that need to be clarified in the distribution of zakat funds, among others: standards mustahik indicator, poverty limit, effectiveness and efficiency of fund distribution, delivery time limit, service standards, and others. In other words, principles such as transparency, accountability, responsibility, legal certainty, professionalism, proportionality, must be implemented in the management of zakat. Moreover zakat is a religious service (not just managing finances). In the context of zakat management should consider the conformity of sharia (sharia compliance).

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