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CONCEPTION OF RISK MANAGEMENT IN ZAKAT INSTITUTION

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ABSTRACT
This research examined the problem related to the context of zakat management, in which one thing that is necessary to be maintained is the credibility and accountability of zakat management institutions. The official data of the National *Amil* Zakat Agency (*BAZNAS – Badan Amil Zakat Nasional*) suggest that the national zakat collection only reached IDR 3,65 trillion in 2015. The collected zakat was still less than five percent of the total potential. One of the main factors causing the nonoptimal utilization of zakat instruments in the national development is the weakness of zakat management that leads to the non-optimal system of the national zakat management. This research used Enterprise Risk Management (ERM) method with modified Committee of Sponsoring Organization of the Treadway Commission (COSO) approach. In the document of ZCP (Zakat Core Principles), the types of risks that have been identified can be classified into four categories, namely reputation and Muzakki loss risk, disbursement risk, operational risk, and country and transfer risk.

KEY WORDS
Risk, management, transfer, reputation.

Zakat is one solution to increase people's welfare. Welfare is what every society hopes. That is why Islam always put forward its people's welfare. Welfare has not been realized due to poverty, which is a big problem that has long existed. In the view of Islam, the problem of poverty is related to the unfulfilled primary or basic needs as a whole. Islamic sharia categorizes the primary needs into three, namely clothes, food, and housing (shelter).

Islam has a high concern in freeing the poor (*Fuqara*) or needy (*Masakin*) people from their poverty or underdevelopment. Islam also has consistent teachings in alleviating poverty. Even, the learning in eradicating poverty is also taught early on, which is the basic education of the urgency of sharing, both through zakat, infaq, *shadaqah* (alms) and other religious charitable funds. Islam religion along with its teachings has a highly mature concept to build social regularity based on mutual help or cooperation. Rich people must set aside a small portion of their wealth for the poor and needy people. The small portion to be shared can be in the form of zakat, infaq, and shadaqah.

Zakat is the third pillar of Islam that is compulsorily implemented by each Muslim. If viewed from its benefits, zakat is a *Maliyah* worship that concerns the relationship between fellow humans as well as the relationship between humans and Allah SWT. In the relationship between fellow humans, zakat functions as *ta'awuniyah* or mutual help in which those who have wealth can set aside some of their property to help others in need with certain provisions. As for the relationship between humans and Allah SWT, zakah (zakat) is a form of worship or obedience of a servant to Allah SWT.

If managed properly, zakat can be one of the push factors for the improvement of people's economic condition. This is because the distribution of zakat will lead to the welfare growth of the recipients (*Mustahiq*). Indonesia is a country with a majority Muslim population. It means that the majority of the population of Indonesia is obliged to pay zakat every year. Automatically, the potential amount of zakat utilization funds in Indonesia, especially in the effort to improve people's welfare, is very high.

In the first conference of *International Working Group on Zakat Core Principles* (IWGZCP), it was agreed that the identification of risks in zakat management is greatly important because it will affect the quality of zakat management in the future. There are at least four types of risks that have been authenticated, and the world of zakat must have an incisive concept in mitigating those risks. The four types of risks include *reputation and Muzakki loss risk, disbursement risk, operational risk,* and *country and transfer* (Beik, 2015).

According to Hadidhuddin and Beik (2010) and Andriyanti (2011) in Triyani, Beik, Baga (2017), professional, trustworthy and transparent management of zakat becomes a notable instrument that can prosper and uphold the Muslims. Besides, more widely, the benefits of zakat are not only limited for Indonesian people but for the entire Muslims population of the world.

Risk management becomes a must for every company (Darmawi, 2008 in Triyani, Beik, Baga, 2017). Therefore, by understanding that zakat has very substantial benefits for the people, it is necessary to conduct research on the management of risks in *Amil* zakat institutions. Zakat management institutions have a considerably strategic role in implementing sharia provisions related to the obligation to pay zakat and distribute it to those who deserve it (*Mustahiq*). Therefore, this research aimed to analyze the management of risks in *Amil* zakat institutions. Furthermore, this research is expected to be a good reference for other zakat institutions. Based on the explanation above, the objectives of this research were (1) to analyze the factors causing risks in *Amil* zakat institutions, (2) to do mapping of risk probabilities and impacts occurring in the stage of zakat fund collection, management and distribution, as well as (3) to formulate efforts to mitigate risks in *Amil* zakat institutions (*LAZ – Lembaga Amil Zakat*).

To make the goals and benefits of zakat properly realized and targeted, it is necessary to establish zakat management institutions. In Indonesia, such institutions are named National *Amil* Zakat Agency *BAZNAS* (*Badan Amil Zakat Nasional*) and *LAZNAS* (*Lembaga Amil Zakat Nasional*). The two organizations are responsible for collecting, managing, and distributing zakat funds from *Muzakki* (zakat payers or donors) to *Mustahiq* (zakat receivers). These organizations are hoped to help the community in fulfilling their zakat obligation. In addition to the time efficiency aspect, the on-target system becomes the main advantage of collective zakat fund management through the organizations, if compared to the zakat management done individually. This is because *BAZNAS* and *LAZNAS* have more accurate data about which parties are more eligible to receive zakat funds. More importantly, both organizations are indeed closer to the surrounding community.

Management of risks in zakat institutions becomes very important and strategic. So far, we have only known the term of risk management in the banking and industrial sectors in general. In fact, zakat institutions also require risk management. The term 'risk management' in zakat institutions is something that is not commonly heard. On the contrary, the sharia and conventional banking industry has known this term well and even been able to identify what is included in the types of risks that must be managed so that banks can minimize the risk probabilities that will cause negative impacts on the growth of their industries.

Based on the inaugural conference of *International Working Group on Zakat Core Principles* (IWGZCP) held on the last August, it was agreed that the identification of risks in zakat management is very notable because it can affect the quality of zakat management in the future. There are at least four types of risks that have been recognized, and the world of zakat must have a clear concept in mitigating those risks. Those four types of risks include *reputation and Muzakki loss risk, disbursement risk, operational risk,* and *country and transfer* (Beik, 2015).

Meanwhile, in the article entitled "*Functions and Positions of Amil Zakat Institutions in Islamic Sharia",* it is explained that zakat institutions, in carrying out the duties, will certainly face risks in every function, such as risks emerging in the process of collecting, managing, and distributing zakat funds (www.google.com, accessed on June 29, 2014).

To identify risks in the management of zakat, this research used *Enterprise Risk Management* (ERM) method. With the use of *ERM* method, risk probabilities, risk impacts, and risk mitigation are able to be carried out.

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LITERATURE REVIEW

In terms of language, the word 'zakat' derives from Arabian basic word of *masdar* which means holy, blessing, growing, and praiseworthy, all of which are mentioned in the interpretation of Al-Qur'an and Hadiths. Meanwhile, terminologically, the term 'zakat' is a number of specific properties that have met certain conditions obliged by Allah SWT to be disbursed or submitted to the entitled community.

Furthermore, in economic terms, zakat is an activity of transferring wealth or properties from the rich to those who are in needs. Zakat is an Islamic command or pillar that must be performed by Muslims who are capable of implementing it (have a more prosperous life) as stated in QS. Al Baqarah: 43 as follows:

"And establish prayer and give zakah and bow with those who bow [in worship and obedience]."

Zakat is a "*maaliyah ijtimaiyah"* worship that has an important and strategic position and role, either from the religious, social, economic and community's welfare aspects. The collection and distribution of zakat to *Mustahiq* entitled to receive it from the time of Prophet Muhammad SAW, followed by the time of his friends and so on, must be done through the reliable and trustworthy *Amil* or zakat administrators (QS. At Tawbah: 60 and 103).

According to Sartika (2008: 80), the purposes of zakat are as follows:

- To lift the poor (*Fuqara*) and needy (*Masakin*) and setting them free from life difficulties and suffering;
- To help solve the problems faced by *Mustahiq*;
- To expand and foster fraternal races among Muslims and humans in general;
- To keep the rich (property owners) from arrogance and miserliness;
- To back the poor from jealousy and envy;
- To bridge the gap between the rich and the poor in society;
- To develop a sense of social responsibility in a person, especially to those who have wealth and prosperous life;
- To educate humans to be disciplined in fulfilling their obligations and surrendering the rights of others embodied in their wealth.

Zakat management organizations are institutions engaged in the management of zakat, infaq, and shadaqah funds. According to Law No. 23 of 2011, zakat management is the activity of planning, implementing and coordinating the collection, distribution, and utilization of zakat. Zakat management aims:

- To improve the service effectiveness and efficiency in the management of zakat;
- To increase the benefits of zakat so as to realize community welfare and alleviate poverty.

Zakat management organizations of any form and position have two functions in general, covering:

As a Financial Intermediary. Amil (zakat administrators) plays a role between *Muzakki* and *Mustahiq.* As a financial intermediary, *Amil* is required to apply the principle of trust. Like other financial institutions, the principle of trust becomes an absolute requirement that must be built by *Amil* zakat institutions. Moreover, each *Amil* is required to demonstrate their respective excellence so that the organizational positioning can be clearly visible and people are willing to choose the organization. Without the organizational positioning, *Amil* will be difficult to develop its position.

As an Empowerment Means. Viewed from this function, zakat management organization is actually an effort to realize the mission of the formation of *Amil,* that is to make *Muzakki's* wealth or property more blessed and bring their life prosperity to be more assured. On another side, the existence of zakat management organizations is not intended to make *Mustahiq* always depend on the provision of zakat. Instead, it is hoped that in the long term, *Mustahiq* can turn into new *Muzakki.*

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A risk is a potential loss due to the occurrence of a particular event.[1] Meanwhile, according to the other different source, a risk is defined as a probable occurrence of abolition or danger that can be predicted in advance by using fairly reliable and relevant data. There are several notions of risks, which basically depend on the types of risk interests. In general, risks have an effect on an event in the achievement of its goals.

According to Hanafi (2006), risks arise because there is a condition of uncertainty. Investment can both bring a profit (price up) and cause a loss (price down). The uncertainty leads to risks. Risks occur due to lack or unavailability of enough information about what will happen. The ISO Guide defines risks as an effect or impact of uncertainty on the achievement of goals. A risk is a function of the possibility of a threat source triggering a potential vulnerability that is likely to result in negative impacts on companies. Each event is possible to cause a negative impact, a positive impact or both impacts. Events with negative impacts reflect risks that potentially prevent the creation of values or erode the values that have existed. On another side, events with positive impacts create opportunities. Opportunities are the possibility of an event to occur and positively influence the achievement of objectives, support the achievement of values or the process of corporate objective setting, and formulate plans to get the existing opportunities (COSO, 2004). According to COSO (2004), *Standard of Enterprise Risk Management Integrated Framework (ERM)* is a process influenced by direction board, management and other employees applied in a corporate-wide strategy setting and designed to identify potential events that may affect entities as well as the existing risk management to provide certainty to the achievement of goals of the entity. It is a method (process) used by companies to deal with the emerging risks in the effort of achieving their objectives (Kountur, 2008).

The framework of this research referred to the ERM framework model adopted from COSO. The ERM framework model of COSO is a framework presented in Moeller (2007) in the form of a three-dimensional cube consisting of 3 parts as shown in Figure 1 below.

Figure 1 – ERM Framework of COSO (2004)

In this research, *Enterprise Risk Management* (ERM) method was used to identify risks. With the ERM approach, risk probabilities, risk impacts, and risk mitigation are able to be performed. COSO-version ERM consists of 8 interrelated components. These eight components are derived from how management runs the company and integrated with the management process. The eight components are needed to achieve corporate objectives, including strategic and operational objectives, financial reporting, and compliance with statutory requirements. These components are further explained as follows:

Internal Environment – The internal environment greatly determined the color of an organization and provides the basis for everyone in the organization to see risks. The internal

[1] *Regulation of Indonesian Bank Number 13/23/PBI/2011 on the Implementation of Risk Management for Sharia Banking and Business Units*

environment includes the philosophy of risk management and risk appetite, ethical and integrity values, and the environment in which those all things operate.

Objective Setting – Corporate objectives must be determined first before management can identify events that potentially affect the achievement of those objectives. ERM ensures that management has a process for setting objectives and that the selected or defined objectives are related to and support the company's mission as well as consistent with its risk appetite.

Event Identification – Internal and external events that affect the achievement of corporate objectives must be identified and differentiated whether such events lead to risks or opportunities. If it is an opportunity, it can be channeled back to the process of setting managerial strategy and objectives.

Risk Assessment – Risks are analyzed by taking into account the likelihood and impact as a basis for determining how the risk should be managed.

Risk Response – Management can choose to respond, avoid, accept, reduce or share risks, and develop a set of activities to keep the risk in line with its tolerance and appetite.

Control Activities – Control activities cover policies and procedures determined and implemented to help ensure that risk responses work effectively.

Information and Communication – Relevant information is identified, captured, and communicated in the form and timing that allow everyone to carry out their responsibilities.

Monitoring – The entire ERM process is monitored, and modifications can be made if needed. Monitoring is carried out inherently through ongoing management activities or particular evaluations, or even both.

According to Susilo and Kaho (2011), if risk management is applied and maintained in accordance with the international standard (ISO 31000), it will enable the achievement of the following organizational objectives:

- To increase the likelihood of the achievement of organizational targets;
- To encourage proactive management;
- To increase awareness of risk identification and management throughout all parts of the organization;
- To improve the ability to identify threats and opportunities;
- To comply with applicable laws and regulations as well as international standards;
- To improve both mandatory and voluntary reporting systems;
- To improve organizational governance;
- To improve stakeholder capacity and trust;
- To establish a solid foundation in decision making and planning;
- To improve control;
- To allocate and use resources effectively and handle risk needs;
- To enhance work health and safety as well as improve environmental protection;
- To improve the system of prevention of losses and the management of emergency responses;
- To minimize losses;
- To improve organizational durability.

In the article written by Irfan Syauqi Beik (2014) entitled "*Manajemen Resiko Pengelolaan Zakat"* (Risk Management of Zakat Institutions), there are 4 (four) types of risks that have been recognized, and the world of zakat must have a clear concept in mitigating those risks. Those four types of risks are *reputation and Muzakki loss risk, disbursement risk, operational risk,* and *country and transfer*.

Meanwhile, according to the Islamic Economic Journal of *REPUBLIKA IQTISHODA* on December 31, 2015 entitled *"Analisis Manajemen Resiko Pengelolaan Zakat"* (Analysis of Risk Management of Zakat Institutions), there are 4 (four) categories of risks, namely *negligible risk* (a risk that is not necessary to be considered due to its small impact), *acceptable risk* (a risk that can be accepted but still need to be managed), *undesirable risk* (a risk that is better to avoid), and *unacceptable risk* (a risk that cannot be tolerated so that it must be eliminated or trasferred).

Mufraini (2005) conducted a study entitled "*Efek Distribusi Produktif Dana Zakat, Infak dan Sedekah* (ZIS) *pada Perilaku Konsumsi Mustahiq"* (Effects ofProductive Distribution of Zakat, Infaq and Shadaqah (ZIS) Funds on *Mustahiq* Consumption Behavior). The study used a descriptive quantitative analysis in which the respondent data were obtained by questionnaires and interviews. The results indicate that the behavior and life of *Mustahiq* experience significant changes after obtaining Zakat, Infaq, and Shadaqah (ZIS) funds.

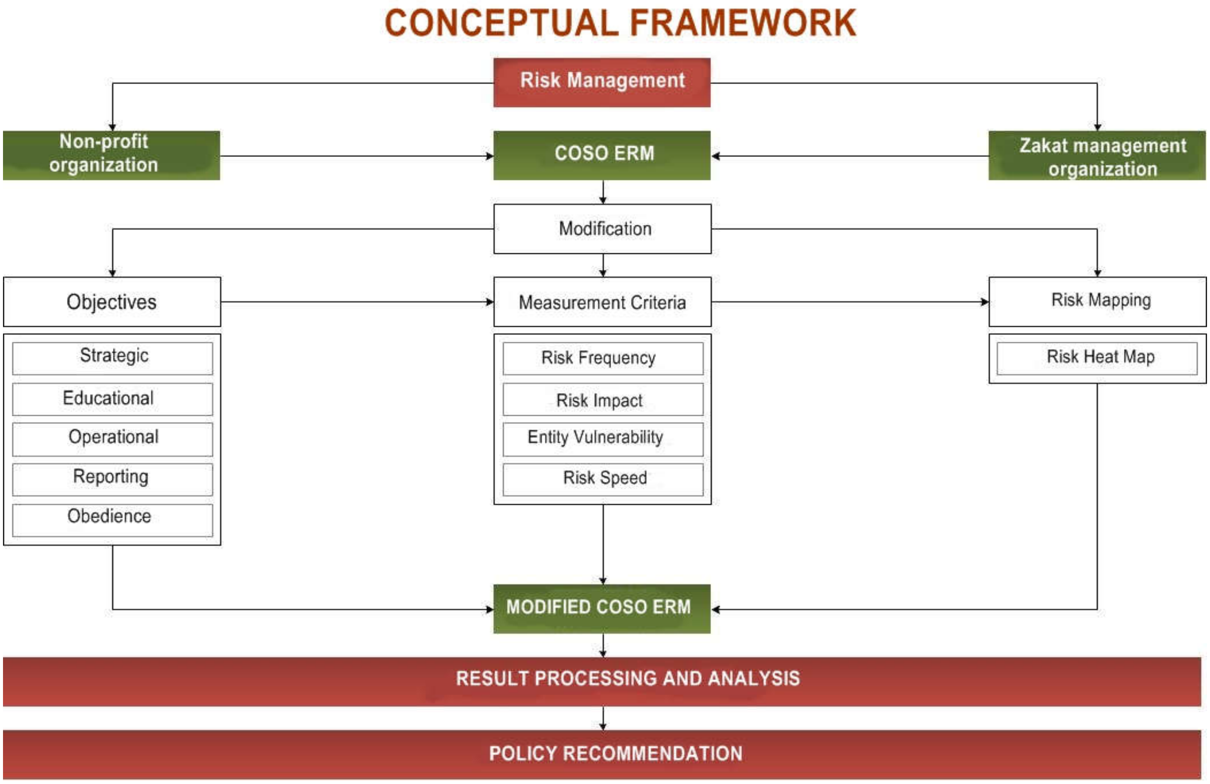

Figure 2 – conceptual Framework (Source: Processed Ascarya, Rahmawati, and Beik, 2016)

METHODS OF RESEARCH

This research used primary and secondary data. The primary data were obtained from a practitioner survey. The respondents involved in this research were Zakat Management Organizations representatives with a minimum position of division heads up to the president director.

Methods used in the data collection of this research are as follows:

- Questionnaire. This method is used to gain primary data obtained directly from research subjects by filling out structured questionnaires. This research used direct questionnaires, which are directly filled by respondents;
- Interview with related parties;
- Documentation;
- Literature.

This research used the guidance of Zakar Core Principles (ZCP) containing principles of zakat systems that can be applied as a guide to control and overcome risks in zakat management. Zakat Core Principles (ZCP) basically refers to the Basel Core Principles (BCP) which is the minimum standard for regulation and supervision of banks and banking systems and has been used in 150 countries. This shows that BCP represents the best model for assessing banking quality and overseeing banking activities.

Regarding the reality above, of 29 BCP, some are accommodated in Zakat Core Principles (ZCP), which amounted to 18 principles that are relevant to zakat supervision. The 18 principles become the basis for the main guidelines of prudent regulations and requirements in the implementation of Zakat Core Principles. The risks emerging in zakat management are recorded in ZCP 11 – 14, namely *Country and Transfer Risks, Reputation and Muzakki Loss Risks, Disbursement Risk, and Operational Risk.* Grounded on the concept, this research used the following approaches.

The first risk, namely reputation and *Muzakki* loss risks, can be eliminated by providing the following approaches:

- Proper incentives for *Muzakki*;
- Good zakat management services so as to engage or attract *Muzakki* in paying zakat in *Dompet Dhuafa*;
- An integrated zakat management system that is the standard in identifying, assessing, evaluating, monitoring, reporting and reducing reputation and *Muzakki* loss risk;
- Social and educational programs to improve good information about zakat to the public.

The second risk, that is the disbursement risk of the collected zakat funds or the risk of making mistakes in zakat distribution, can be reduced with the following approaches:

- Determining who are categorized into the 8 groups deserving to receive zakat (*Ashnaf*);
- Mapping a clear and detailed flow of zakat distribution activities.

Risk Identification. Risk identification is one of risk management stages. Risk identification plays a highly important role that affects risk assessment. This stage is the first performed to determine whether or not those risks have a significant effect on the management of zakat at *Amil* zakat institutions.

Risk Measurement and Mapping. The process of risk measurement in this research used an approximation method. Kountur (2008) explained that approximation method is a way to know the probability and impact of a risk to others. The probability or likelihood of occurrence of risks can be measured based on the risk category, the frequency of risk occurrence in a certain period of time, and its scoring. Risk levels are classified based on the frequency of risk occurrence per year, in which score 1 represents a very low-risk frequency (improbable) and score 5 reflects a very high-risk frequency (frequent). Description of the probability levels can be seen in Table 1 below.

Table 1 – Indicators of Probability of Risk Occurrence

Category	Description	Frequency	Score
Improbable (very low)	Hardly probable to occur	< 5 times per year	1
Remote (low)	Occasionally probable occur	5-10 times per year	2
Occasional (moderate)	Probable to occur	11-20 times per year	3
Probable (high)	Very probable to occur	21-50 times per year	4
Frequent (very high)	Almost certainly occurs	> 50 times per year	

Source: Processed Godfrey (1996).

After measuring the probability of risk occurrence, the next stage was to estimate or measure the impacts resulted from the risks. Based on the impact, risks can be classified into 5 categories, ranging from the risks with a large impact to risks with a little impact on the organization. Table 2 below outlines the impacts of risks based on the 5 categories, namely *negligible, marginal, serious, critical, and catastrophic.*

Meanwhile, in Table 3, it can be seen the levels of risk acceptance from Godfrey (1996) in which risks with a score of 1-2 are included in the negligible category, covering risks that are rare to occur or tend to have a relatively small impact if occurs. The impact of such a risk can be reduced, but the cost may outweigh the impact resulted. In this case, it is best to accept the risk. Furthermore, risks with a score of 3-4 fall within the acceptable category, covering risks that have an impact on *Amil* zakat institutions but the impact is still within tolerable limits so that it can still be overcome. The most appropriate response to such a risk is to reduce it.

On the other side, risks with a score of 5-12 are classified into the undesirable category, covering risks to watch out for because such a risk exceeds the tolerance limits and significantly affects *Amil* zakat institutions. The most appropriate response to this type of risks is to avoid it. Moreover, risks with a score of more than 12 are included into the unacceptable category, that is risks with a high impact level because it gives a significant influence, harms and even has a long-term domino effect on *Amil* zakat institutions, so it must be first prioritized. This type of risks must be eliminated or transferred.

Table 2 – Measurement of Impacts of Risk Occurrence

Category	Description	Score
Negligible	Causing an insignificant impact or problem for *BAZNAS*	1
Marginal	Only causing a little impact or problem that can be overcome with routine management	2
Serious	Preventing the institution from its goal fulfillment for a certain period	3
Critical	Causing *BAZNAS* not able to achieve its partly long-term goals and disrupting liquidity	4
Catastrophic	Causing *BAZNAS* not able to achieve its long-term goals as a whole, leading to bankruptcy, death or criminal penalty	5

Source: Processed Godfrey (1996).

Table 3 – Risk Acceptance Levels

Impact							
Catastrophic	*Critical*	*Serious*	*Marginal*	*Negligible*			
5	4	3	2	1			
Probability	*Frequent* (Very high)	5	25	20	15	10	5
Unacceptable	*Unacceptable*	*Unacceptable*	*Undesirable*	*Undesirable*			
Probable (high)	4	20	16	12	8	4	
Unacceptable	*Unacceptable*	*Undesirable*	*Undesirable*	*Acceptable*			
Occasional (moderate)	3	15	12	9	6	3	
Unacceptable	*Undesirable*	*Undesirable*	*Undesirable*	*Acceptable*			
Remote (low)	2	10	8	6	4	2	
Undesirable	*Undesirable*	*Undesirable*	*Acceptable*	*Negligible*			
Improbable (very low)	1	5	4	3	2	1	
Undesirable	*Acceptable*	*Acceptable*	*Negligible*	*Negligible*			

Source: Godfrey (1996).

Mitigation strategy planning is an activity undertaken as a process, technique, and strategy to reduce risks. In this research, mitigation strategy planning was also investigated in relation to the risks emerging in zakat management. The responses of mitigation strategy planning can be in the form of risk avoidance and risk transfer.

RESULTS AND DISCUSSION

Risk in Fund Collection Process. In collecting zakat funds from *Muzakki* (zakat payers), zakat institutions certainly will face several risks, including the risk of losing *Muzakki's* trust to disburse or entrust their zakat funds to the institutions. There are still many people who do not believe that the funds they entrust to zakat institutions will truly reach the hands of *Mustahiq,* both in terms of quantity of funds and the exactness of the zakat fund distribution. Most people still assume that the nominal zakat funds will be decreased due to administrative matters. In addition, people also do not know where their zakat funds will be disbursed or, in other words, the information on which regions their zakat funds will be disbursed is not transparent. This is what has made people less believe that their zakat funds will be received on target in accordance with their expectations. Therefore, people feel more satisfied and convinced if their zakat funds are distributed individually.

Such a risk can occur due to lack of public socialization and education regarding the tasks and profiles of zakat institutions as well as the advantages they can get by entrusting zakat funds in zakat institutions. Starting from the public assumption above, many zakat institutions finally have the initiative to make lists of people entitled to receive zakat funds (*Mustahiq*) and also draft a list of priority people who must be the first to be given zakat funds. This is what needs to be socialized to the community.

Other factors causing the risks mentioned above are the lack of education and supervision of human resources (*Amil* or zakat administrators) in zakat institutions. *Amil* needs to be educated on how to receive zakat funds from the community, both in terms of the administrative process and the process of collecting zakat funds from the community (whether sorted or mixed into one).

For these risks, there are some solutions that can be taken as follows:

- Providing regular socialization to the community about the profile and role of zakat institutions in managing zakat funds;
- Zakat institutions should be able to blend in the community using other ways so as to make them believe in the role of zakat institutions;
- Educating *Amil* of zakat in the process of collecting funds from *Muzakki,* both from the administrative process and the process of collecting zakat funds from the community in accordance with the approved agreement.

Risk in Fund Management Process. In the process of managing funds, zakat institutions are responsible for ensuring that the zakat funds received have met the number of *Mustahiq* groups. Zakat institutions arrange the collected zakat funds to be distributed to the entitled groups (*Ashnaf)* as recommended and determined by Islamic sharia.

Furthermore, in the process of managing the funds, zakat institutions will face the risk of incompatibility between the amount of the collected zakat funds and the number of *Mustahiq* that they have listed. This can happen due to the excessive number of prioritized *Mustahiq.* Besides, the less expert or competent *Amil* in the disbursement of the collected funds also can lead to the risk. In addition, related to the function of zakat funds, zakat institutions have only managed funds for the *Mustahiq's* consumption purpose, not for the sustainable productive purpose. From this fact, it can be said that zakat institutions can also face risks emerging in the management of productive zakat funds that is still lacking (not appropriate).

The risks mentioned above can be overcome using these following solutions:

- *Amil* should obtain a more complete data related to the eight *ashnaf* and be more thoroughly making the priority list of *Mustahiq* (zakat receivers);
- *Amil* should be educated so as to be more competent or expert in managing zakat funds;
- Funds from *Muzakki* (donors) should be increased in quantity by keeping the trust of zakat donors (*Muzakki*);
- Standardization and guidance in the management of zakat should be determined;
- Cooperation with other parties (partnership) should be established to create a consumptive and productive management of zakat funds.

Risk in Fund Distribution Process. In the process of distributing zakat funds, zakat institutions will also face several risks such as improper zakat receiver targeting (*Mustahiq*) and the low effectiveness and efficiency levels in zakat fund distribution. The risk of improper targeting of zakat receivers can happen due to the lack of data of *Mustahiq* belonging to the eight *Ashnaf.* Such a lack of data may occur because of *Amil's* low understanding of the criteria of each group of the eight *Ashnaf.* Moreover, such a risk is also probable to happen if *Amil* (zakat administrators) who is responsible to distribute zakat funds is not mandatory or reliable. As a result, the distribution of zakat funds becomes uneven or misallocated so that there will be some parties who are negatively impacted.

Meanwhile, the risk of low distribution effectiveness and efficiency is related to the function of zakat fund disbursement or, in other words, it can be said as a risk of inappropriate fund utilization.

Solutions that can be made related to the risks mentioned above are as follows:

- The selected *Amil* of zakat must be honest and trustful;
- *Amil* zakat institutions need to conduct routine education to more deeply understand the criteria of each group of the *eight ashnaf;*
- *Amil* zakat institutions need to supervise and control *Amil* in charge of distributing zakat funds (whether the zakat funds have been received by the parties who are truly in need);
- *Amil* zakat institutions should make strong administrative and reporting systems of zakat management;
- *Amil* Zakat institutions should cooperate with other parties to create a consumptive and productive management of zakat funds.

The management of zakat by *Amil* zakat institutions has several advantages as follows: (1) It can ensure the certainty and discipline of zakat payments, (2) it can prevent *Mustahiq* from the feeling of low self-esteem because they do not have to meet directly the *Muzakki* at the time of receiving the zakat, (3) it has a high level of distribution efficiency and effectiveness, as well as is able to reach appropriate targets in the use of zakat properties according to the priority scale that exists in a place, (4) it can show the syiar of Islam in the spirit of Islamic governance, (5) it can facilitate the coordination and consolidation of *Muzakki* and *Mustahiq* data, (6) it can facilitate the responsibility reporting of zakat management to the public, and (7) it can organize zakat management professionally (pen). In contrast, if zakat is paid or given directly by *Muzakki* to *Mustahiq* (although it is legitimate according to the shar'i law), apart from the absence of the above advantages, the zakat wisdom and function, especially related to people's equality and welfare, will be difficult to bring into reality.

Risk Mitigation Measures. Mitigation measures are carried out on risks included in the high risk or unacceptable risk category. Those risks are as follows.

Risks of zakat fund collection:

- The amount of property withdrawn for zakat is not in accordance with the calculation of zakat/ *nishab*. For this risk, the mitigation measure to do by *Amil* zakat institutions is to help *Muzakki* to calculate their zakat obligation;
- *Muzakki* pays zakat individually, not through *Amil* or, in other words, *Muzakki* does not trust *Amil* in managing their zakat. The mitigation measures for this case include socializing to the community about the tasks and functions of *Amil* in distributing zakat to *Mustahiq,* improving the HR quality of *Amil* zakat institutions by providing HR training periodically, monitoring the HR performance of *Amil* zakat institutions, and imposing strict sanctions to those (*Amil*) who make violations or wrongdoings (break the laws);
- *Amil* zakat institutions approach *ulama'* with the aim of approaching the government in an effort to publish and establish the regulations on zakat.

Risks of zakat fund management:

- Zakat funds are used for the benefit of groups (fund deviation). *Amil* zakat institutions can mitigate this risk by strictly selecting human resources of *Amil.* Moreover, *Amil* zakat institutions can also do a rigorous selection for *Mustahiq* (zakat receivers) who truly deserve zakat funds;
- Some of the zakat funds are used for operational costs. To mitigate such a risk, it should be noticed that the *zakat* funds allowed to be used by *Amil* for the operational needs are a maximum of 12.5% or 1/8 of the total zakat funds collected, and if the use of zakat funds by *Amil* zakat institutions exceeds 12.5% or 1/8, there will be sanctions or imprisonment;
- There is no transparency in the management of zakat. As the mitigation measure, *Amil* zakat institutions are obliged to publish their financial statements;
- There is no periodic zakat fund reporting;

- There is no SOPs in the management of zakat funds. The mitigation measure that *Amil* zakat institutions should undertake is to make SOPs as their operational standards in managing zakat funds;
- The management of *Mustahiq* database is weak. To mitigate this risk, a central database system of *Mustahiq* should be built.

Control Activities. Control activities are performed to minimize losses incurred by risks and ensure effective response to the risks. The controls can be in the form of a clear job description for each employee, strict supervision of SOPs, good documentation in each division, and periodic internal audit (quarterly or annually).

Monitoring Activities. Monitoring activities can be done through ongoing management processes with periodic evaluation. By performing monitoring, it can be known how operational activities are going on and to what extent the level of public trust and satisfaction on the service of *Amil* zakat institutions. Monitoring, in this research, was emphasized on the risks falling into the category of unacceptable risks due to its great impact on the operational of *Amil* zakat institutions. Furthermore, it is expected that unacceptable risks emerging in *Amil* zakat institutions can be monitored periodically (quarterly or annually). Risks classified into the unacceptable risk category are as follows:

- Risks of zakat fund collection. The amount of property withdrawn for zakat is not in accordance with the calculation rule of zakat (*nishab*). For this risk, the monitoring activity to do is making a form containing the information about *Muzakki* income sources for a year;
- Risks of zakat fund management. To monitor risks that may occur in the management of zakat funds, it can be done an internal audit, operational activity monitoring, and evaluation reporting to the top management level regarding audit team findings. Additionally, in the SOP implementation, *Amil* zakat institutions can do a periodic evaluation so that it can be known whether the SOPs have run accordingly with its function. Also, *Amil* zakat institution can also selectively monitor who truly deserve to receive zakat (*Mustahiq*) so as to avoid the occurrence of double zakat acceptance by *Mustahiq*;
- Risks on zakat fund disbursement/ distribution. In this stage, monitoring activities are carried out to prevent the occurrence of data fraud or manipulation made by *Mustahiq.* By conducting the monitoring activities, it can be determined whether the zakat disbursed is well used and has been in accordance with the needs of *Mustahiq* (on target).

CONCLUSION

This research shows that *Muzakki* (zakat payers or donors) today more concerns and feels curious about to which their zakat funds will be disbursed. This indicates that the urgency of risk mitigation of zakat distribution becomes a priority to review as it is also associated with other risks. One of the factors causing the performance achievement of *Amil* now began to shift, which is no longer only measured on how much zakat funds are collected, but also how much benefit is perceived by the recipients of zakat funds. Moreover, *Amil* zakat institutions are also required to be able to transform *Mustahiq* conditions to be independent.

Empowerment of zakat to change the mindset of society that zakat is not solely part of religious obligation which, if it is not done, can lead to sins. More than that, zakat also has a great social impact to alleviate poverty in society. Research on risk management is a continuum of steps and efforts towards sharia compliance in zakat management.

SUGGESTIONS

The distribution of zakat funds must have clear and measurable indicators. Things that need to be clarified in the distribution of zakat funds include *Mustahiq* indicator standard, poverty limit, distribution effectiveness and efficiency, distribution deadline, service standards, and so on. In other words, principles such as transparency, accountability, responsibility, legal certainty, professionalism, and proportionality should be implemented in the management of zakat. Moreover, zakat is a form of Islamic worship or pillar (not just a sort of financial management). Contextually, zakat management should consider the conformity of sharia (sharia compliance).

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