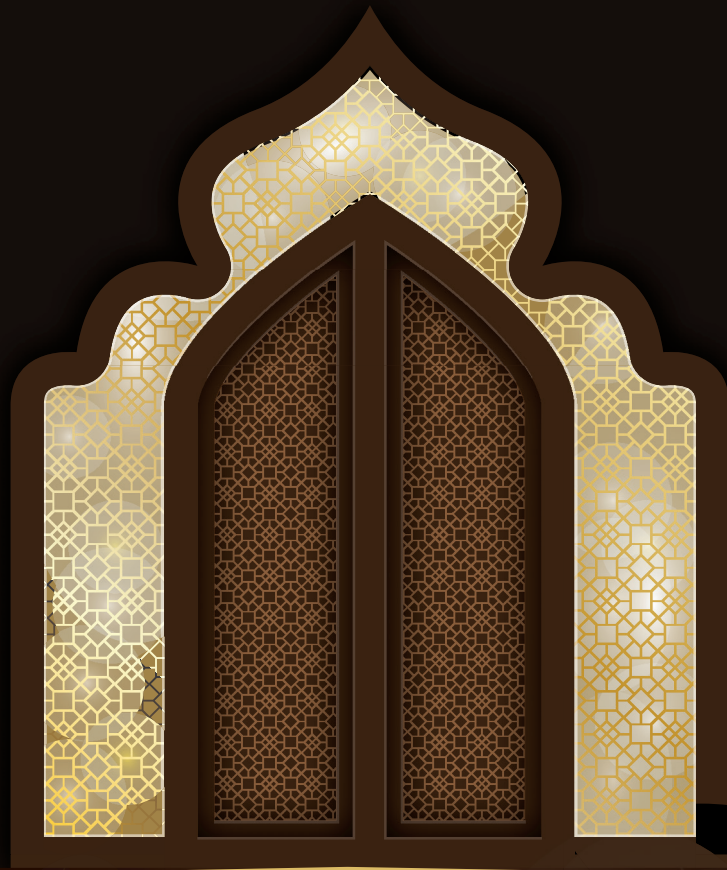




BANK INDONESIA



BAZNAS
Badan Amil Zakat Nasional



ZAKAT RISK MANAGEMENT

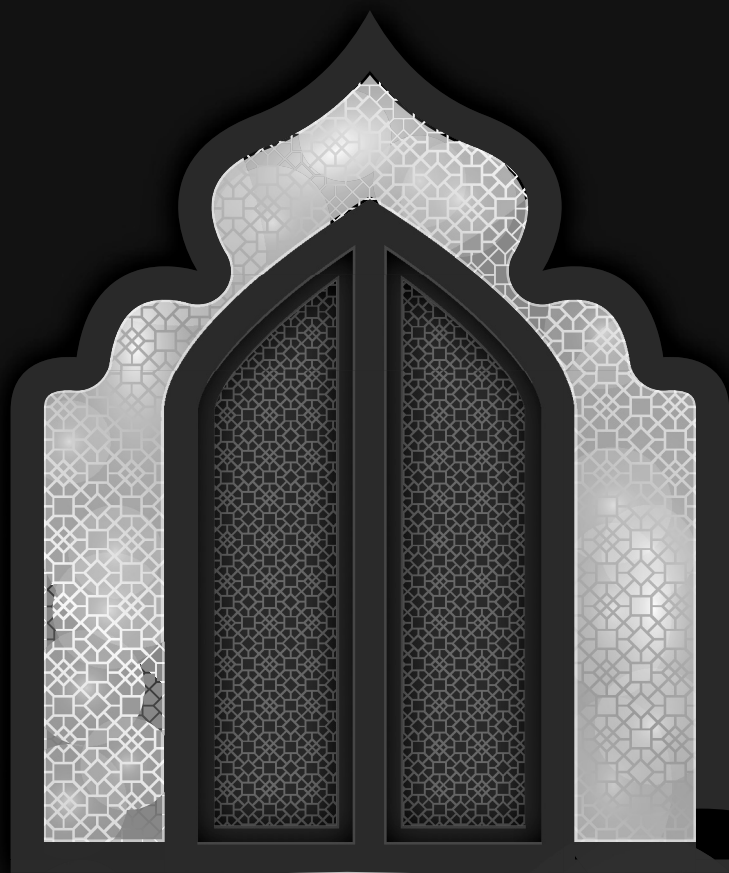
CENTER OF STRATEGIC STUDIES – THE NATIONAL BOARD OF ZAKAT
DEPARTMENT OF ISLAMIC ECONOMICS AND FINANCE – BANK INDONESIA



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CENTRE OF STRATEGIC STUDIES – THE NATIONAL BOARD OF ZAKAT
DEPARTMENT ISLAMIC ECONOMICS AND FINANCE – BANK INDONESIA

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Bismillahirrahmanirrahim

Assalamu'alaikum Warahmatullahi Wabarakaatuh

All praise due to Allah and greetings to the Prophet Muhammad as a blessing for human so that we are able to make various efforts to increase economic and financial activities in order to achieve benefits both in the world and in the hereafter.

Zakat system is very important in sustaining Islamic economic and finance development in Indonesia. One of great ideas about the arrangement of zakat management is written in the Law Number 23 year 2011 concerning about zakat management. Collector and utilizer of Zakat, infāq and sadaqah (ZIS), especially the National Board of Zakat (BAZNAS) and Zakat institutuon (LAZ) which have obtained a confirmation or known as the Zakat Management Organization (OPZ).

Today, OPZ activities will be largely determined by the management capacity of zakat managers in dealing with various rapid changes. Globalization, the rapid growth of information and technology and commercial finance innovation cannot be avoided, and social finance are become more complex, dynamic and competitive. This condition has the potential to increase the risk challenge towards OPZ where all these risks must be managed.

This book is a form of Bank Indonesia responsibility in carrying out its obligations as an authority that actively participates in raising and facilitating the development of Islamic economics. Through collaboration with BAZNAS, this book was compiled as one of the efforts to obtain a reliable zakat management system. In addition, this book is also arranged in order to improve understanding in the application of risk management. It is not only to meet the needs of regulators, but also to be a medium to manage the risks faced by each OPZ. This book is then focused on risk management steps for OPZ.

Finally, we would like to express our gratitude to all parties, including the writer team, speakers from various institutions of zakat institution in Indonesia, as well as other related parties who have contributed their thoughts and time in completing this book. May God give him abundant mercy and blessings, and hopefully this book can provide benefits and enhance a knowledge in the field of Islamic economics and finance in Indonesia.

Wassalamu'alaikum Warahmatullahi Wabarakaatuh

Jakarta, 24 May 2018/ 8 Ramadhan 1439 H

M. Anwar Bashori

Head of Department Islamic Economic and Finance

The National Board of Zakat Acknowledgement

Bismillahirrahmanirrahim

Assalamu'alaikum Warahmatullahi Wabarakaatuh

Today, Indonesia has the greatest Muslim populations in the world with 213 million people of 87% of total Indonesians. Ideally, Indonesia can be an example for other countries in practicing and sharing knowledge of Islam. The definition of that ideal makes BAZNAS mission in zakat. Zakat is an instrument if Islam pillars with a large stage, such as faith, economy, and social; a dimension of a big thing for a big nation like Indonesia. So, it will be bad when the dynamics of Indonesian zakat are not recorded properly and correctly, or only discussed with the foundation of the word "approximately".

Therefore, in this chance, we need to be grateful and welcome the inaugural publication book of risk management of zakat management. A research publication of by Department Islamic Economics and Finance (DEKS) of Bank Indonesia cooperates with centre for strategic studies – National Board of Zakat (Puskas BAZNAS). This book becomes important because until today Indonesia - that I emphasize as the biggest Muslim country in the world – has not had a similar publication that compiles data and facts about risk mitigation practices in zakat field. Besides, this book also reflects the real work that BAZNAS strives for the development of zakat in Indonesia.

In the future, this book will be a guide and reference for zakat institutions in Indonesia to be able to improve their skills in managing zakat risk in Indonesia. As a form of shared accountability, we openly accept constructive criticism and suggestions to produce national zakat risk management that is suitable with the needs of the people

Wassalamu'alaikum Warahmatullahi Wabarakaatuh

Jakarta, 24 May 2018/ 8 Ramadhan 1439 H

Irfan Syauqi Beik

Director of Centre for Strategic Studies of
National Board of Zakat

Preface

Bismillahirrahmanirrahim

Assalamu'alaikum Warahmatullahi Wabarakaatuh

An effort to explore and develop the potential of zakat in Indonesia is to optimize the existence of zakat institution. In terms of real collection, the total of zakat collected by the official zakat institution in Indonesia has not reached the optimal rate. Based on the official data from the National Board of Zakat (BAZNAS), it is known that the national zakat collection only reached IDR5.02 trillion in 2016. The collected zakat is still less than 5% compared to its potential total.

One of the main factors that makes zakat collection not optimal is because the low level of public trust in distributing zakat in zakat institution. It is used to educate society and one of the strategies that zakat institution needs to do is to maintain credibility and accountability. Errors and violations in the zakat management will potentially cause a bad reputation for zakat institution which will also create a fatal risk. There are risks that are directly related to the performance of zakat institution, such as errors in the zakat distribution. There are risks that are indirectly related to the performance of zakat institution, but can have a quick impact, such as losing professional skills of zakat administrators. There is a risk that is indirectly related to the performance of zakat institution and the impact is long enough. For example, the reputation of zakat institution decreases and it cannot be experienced in a short time.

As a result, the existence of books related to the conception of risk management in the zakat management is very important and strategic. It must be recognized, the principles of risk management in banking are the most advanced compared to risk management in other industries. However, not all banking risks need to be adapted for non-banking industries, especially in zakat management by zakat institution. Therefore, based on the results of the International Working Group on Zakat Core Principles (IWG ZCP) initiated by Bank Indonesia, BAZNAS, Islamic Development Bank (IDB), it was agreed that zakat institution also needs risk management. Risk identification of zakat institution is very important because it will affect the quality of zakat management.

Briefly, the Risk Management of Zakat Management book contains identification of various types of risks that have the potential to occur in zakat institution like in 11 big risk areas, or 36 types of risks that have a total 405 risks in detail, which are classified into low, medium, high and extreme risks. The risks are also considered from 4 factors, namely Likelihood, Impact, Vulnerability and Speed of Onset, every identified risk is explained by a value of L, I, V, and S, their impact and the mitigation.

The author hopes that this book can be useful as an input from the zakat authority in making "Risk Management Standards" that are in line with the Zakat Core Principle and Technical Note on Risk Management for Zakat Institution, which are adjusted to the general characteristics of zakat institution in Indonesia. This book will certainly be very beneficial for practitioners in developing risk management strategies and the mitigation that are adapted to the specific characteristics of the related zakat institution. In addition, this book also benefits to the academic field as a reading book and / or textbook for Islamic Social Finance, Zakat and / or Risk Management of Zakat Management.

Wassalamu'alaikum Warahmatullahi Wabarakaatuh

Editors
May, 2018

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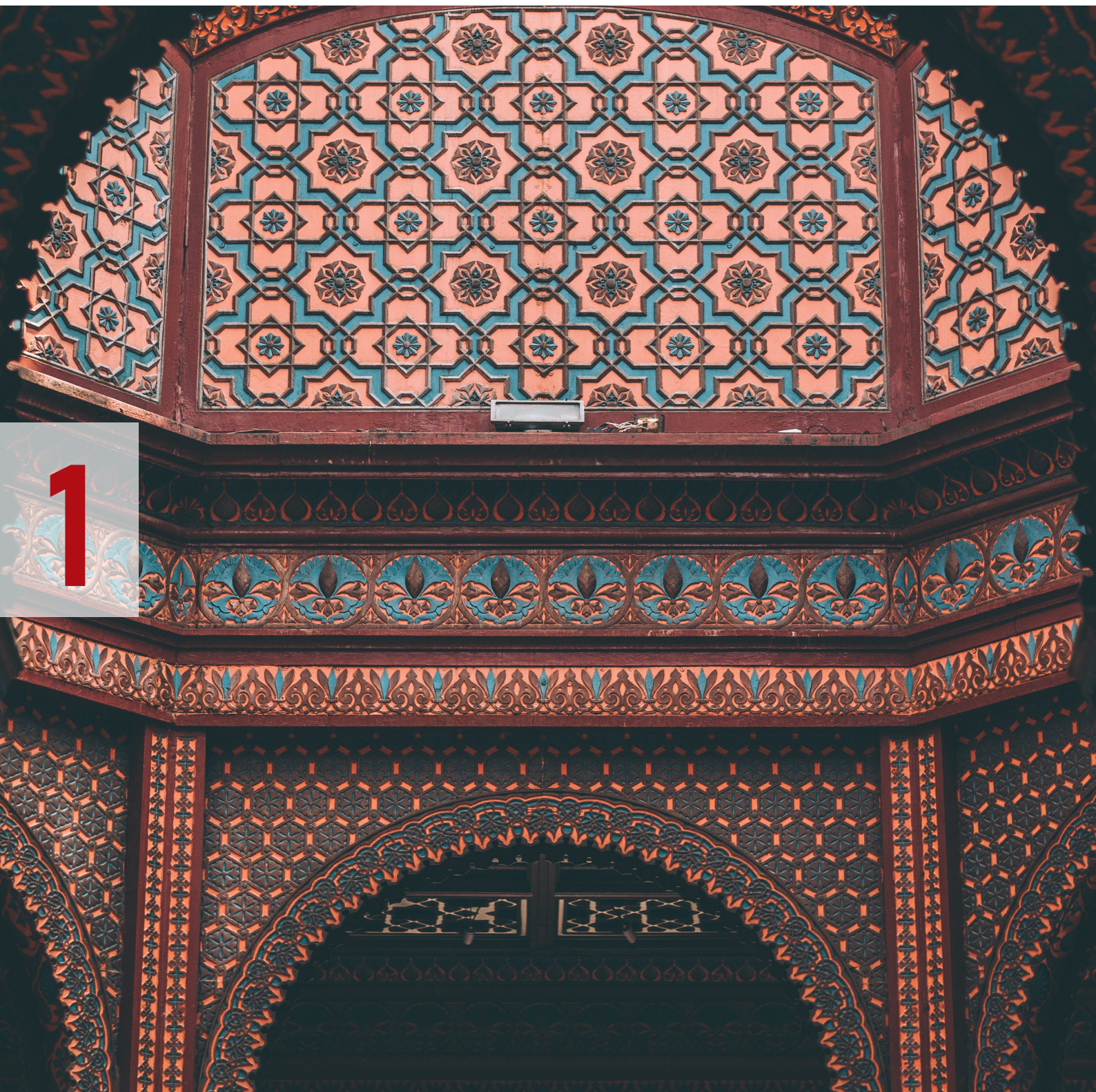
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RISK MANAGEMENT IN ISLAMIC PERSPECTIVE

RISK AS A PART OF ZAKAT INSTITUTION

The future of zakat institution will be largely determined by the management ability of zakat managers in dealing with various rapid transformation that occur nowadays. This inevitable globalization, information and technology rapid transformation and innovation in commercial and social finance are getting complex, dynamic and competitive. This condition potentially increase risks to zakat institution which must be surely managed.

In addition, commercial financial institutions - as a direct partner of social and humanitarian organization – has already struggled with risk. Commercial financial institution has been familiar with various techniques and instruments in managing and mitigating risks. This is something that must be prepared by zakat institution immediately besides some risks in zakat institutions are unique and relatively varied. Why?

In commercial financial institution, the owner earns profits from the outcomes of the organization's operations. While zakat institution is a non-profit organization, it does not recognize the existence of an owner in the organization, whether it belongs to the administrators, donors or beneficiaries. In donor cases, zakat institution needs it as a funding source. This is different with commercial financial institution that already has funding sources. Risks that arise due to the business nature in zakat institution process are because zakat institution is not an institution that look for profit, but it orientates to keep trust in terms of *maslahah*. These unique risks are zakat institution corporatization risk, *amil* and volunteer governance risks, *muzakki* and *mustahik* loss risk, zakat transfer interstate risk, and so on.

Amil need to understand a system that is able to direct social funds collected to consumptive and productive activities that have risk ratio to the best potential benefits. They are expected not only to be able in mastering techniques and financial risk management instruments that are not contradict with the *Sharia*, but also a unique risk management techniques and instruments on zakat management. Although the challenge is quite significant, if zakat institution is back to its essential characteristics by prioritizing the *maslahah* of *ummah* in collecting and distributing social funds, the zakat institution will more likely to be stable. But, this does not mean that the zakat institution are resistant to failure or loss. If a zakat institution is not capable in managing the risks properly and experiencing loss or even fail, the *muzakki* will no longer pay zakat to the zakat institution and they will prefer to distribute their zakat *infaq* and *sadaqah* even *waqf* directly to the *mustahik* who are entitled to accept zakat. They will feel that zakat institution can no longer be trusted in managing their social funds.

Overall, zakat institutions have to start to manage its risks, starting from setting the goals and strategies for risk management, identifying, measuring and mitigating the risks, conduct a monitoring and reporting in the implementation of risk management that have been done. These stages will be discussed further in the following chapters.

BASIC CONCEPTS OF RISK

According to Oxford Dictionary, risk means a situation involving exposure to danger; the possibility that something unpleasant or unwelcome will happen. Whereas in the economic and financial context, risk can be interpreted as the probability of a result that is different than expected. Thus, it can be concluded that the definition of risk is a condition that occurs due to uncertainty of all possible negative consequences.

Risk can be categorized into several groups. For example, in the economic and financial context, risks can be categorized into two groups, namely business risk and financial risk. Business risk is a risk that may occur due to the business nature of a company. Meanwhile, financial risk is a risk that occurs due to the transaction of financial assets.

Basically, risks that may arise from every activity are impossible to be completely removed, however those risks can be managed so that the probability of risk occurrence can be minimized. In terms of responding to every risks that may occur, every person must have a different respond to risks that can be classified as follows:

1. Risk averse
2. Risk neutral
3. Risk seeker

The different reaction from every individual will certainly affect how the individual deals with every risks and the followings are several ways to deal with risk:

1. Avoiding risk
2. Reducing risk
3. Shifting the risk, which means transfer the probable risk that will occur, usually by insuring the probable risk.

ISLAMIC PERSPECTIVE ON RISK

In Arabic, risk comes from the word mukhatarah which literally means danger. However, the term of risk that is frequently used in the financial industry defines risk as uncertainty which means gharar in Arabic. Uncertainty in Islam refers to speculative actions such as gambling that is also known as maysir.

In addition, the concept of risk is closely related to the term al-ghunm bi al-ghurm which means that every opportunity to gain a profit is followed by a responsibility to deal with risk. Furthermore, the risk in the Islamic views is also closely related to the term al-Kharaj bi al-Daman which means that when you want to get a profit, you must be willing to bear the loss. From the explanation above, it can be concluded that in Islamic perspective, risk is not only cover uncertainty but also includes the concepts of mukhatarah, gha-

rar, maysir, al-ghunm bi al-ghurmi and al Kharaj bi al-Daman.

In terms of risk, Ibn Taimiyah argues that risk in the Islamic perspective is not something that is prohibited. It is just that Allah and His Prophets forbid to consume the wealth that is earned illegally (batil) even though it has no risk. Thus, the risk is not forbidden.

Based on these opinions, risks can be categorized as (Dusuki, nd):

1. Permissible risk

Permissible risk is related to economic activities, especially transactions to gain profits. This type of risk cannot be avoided as it is attached to a transaction (inherent risk) as based on the fundamental law of al-ghunm bi al-ghurmi which means that every opportunity to get a profit is followed by a responsibility to deal with risk.

2. Non-Permissible risk

Basically, the difference between permissible and non-permissible risk is the element of batil in consuming wealth or aklu al-maali bi al-baatil as illustrated in Ibn Taimiyah's statement mentioned.

It is also explained in the Qur'an, surah An-Nisa verse 29:

"O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful."

Experts argue that this risk is closely related to the element of excessive uncertainty which is prohibited by Sharia. In Arabic, it is called gharar jasim or gharar fahish, and also can be defined as zero-sum games.

3. Tolerable risk

Apart from the two risk categories discussed above, (permissible and non-permissible risk), there are another type of risks which can be tolerated but can be avoided. In dealing with this risk, it can be done by avoiding, minimizing or protecting an activity from the intended risk. However, the methods of anticipating this risk shall be in accordance with Sharia.

In regards to risk management in Islamic perspective, the Quran instructs to manage risk as has been performed by Prophet Joseph (Yusuf) by avoiding those risks or by diversifying the risks. One example of the verse in the Quran that states risk management is surah Joseph verses 47-49:

"[Joseph] said, "You will plant for seven years consecutively; and what you harvest

leave in its spikes, except a little from which you will eat. Then will come after that seven difficult [years] which will consume what you saved for them, except a little from which you will store. Then will come after that a year in which the people will be given rain and in which they will press [olives and grapes].”

From the verses above, it can be concluded that the Quran has taught risk management in facing difficult conditions, such as a long dry season. To mitigate this problem is by planting food crops before the arrival of the dry season and storing the food for supplies during a long dry season.

In addition, an example of risk management is also stated in Surah Al-Baqarah verse 282:

“O you who have believed, when you contract a debt for a specified term, write it down. And let a scribe write [it] between you in justice. Let no scribe refuse to write as Allah has taught him. So let him write and let the one who has the obligation dictate. And let him fear Allah, his Lord, and not leave anything out of it...”

From the verse above, one of the risk mitigation that can be performed in terms of debts is by recording it. This is done to mitigate the risk if there is a party who denies the agreement.

Based on this explanation, it can be concluded that risk in Islam is not something that is prohibited, but it is a matter that have to be endured by managing or minimizing the risks in accordance with the Sharia.

BENEFITS OF MANAGING RISKS

As previously discussed, risk is a condition that cannot be removed as in each activity there is at least an inherent risk. However, this risk can be mitigated. One of the ways is by implementing risk management.

Risk management includes activities of planning, organizing, directing, and controlling in order to achieve effectiveness and efficiency. In the Islamic perspective, risk management must certainly be in accordance with Sharia that emphasizes halal (permissible) and haram (prohibited) activities to achieve goals. The benefits obtained from a good risk management are as follows:

1. It can identify the possibilities of risks.
An early identification of possible risks, will make the planning that has been made more accurate and better in the future.
2. It can mitigate risks as the results of previous identification.
3. It can conduct an appropriate supervision as the possible risks so that the activities performed can be more effective and efficient.



2

BAZNAS

Badan Amil Zakat Nasional

ZAKAT OVERVIEW

INTRODUCTION TO ZAKAT HISTORY

Zakat is the third pillar of Islam which discuss about the right of wealth. At the beginning of the emergence of Islam, attentiveness to the poor has been explicitly written in the Quran. Some surah that was revealed at the beginning of prophethood like Surah Al-Muddatsir has emphasized Muslims to pay attention to the poor. The surah tells about a group of "the right people" who asked unbelievers and liars to be put into Hell of Saqar. It is clearly explained the reason is because they are reluctant to perform salat (prayer) and do not feed the poor (Qur'an 73:38-46). The statement illustrates that Islam comes with a full concern to protect and provide support of the poor and the needy.

The obligation to pay zakat is prescribed in the second year of Hijra. The administrative provisions and zakat management started to be organized as instructed and performed by the Prophet Muhammad when he was in Medina. It starts with zakat al-fitr which is mandatory for all Muslims after one month of fasting in Ramadan. Provisions on the amount of zakat al-fitr have been determined by the Prophet Muhammad in the hadith which is one sa'. This amount is based on the opinion of majority of scholars, with different measurement sizes. Qardhawi (1973) states that one sa' is 1/6 Egyptian litre or 1/3 Egyptian container, it equivalent to 2,167 grams. In its management, the Prophet Muhammad directly exemplified the operation and distribution. It includes the appointment of some companion to collect zakat al-fitr as amil and also distribution to Medina and outside of Madinah.

Besides zakat al-fitr, Islam also explains zakat maal (wealth). The affirmation of spending zakat on wealth has been explicitly stated in the Quran. It is mentioned clearly that there are 4 assets that are subject to zakat in the Quran, namely; 1) gold and silver (QS 9:34), 2) crops and fruits (QS 6: 141), 3) Merchandising businesses and retails (QS 2: 267) and 4) mining goods (Qur'an 2: 267). In this case, the general formula in the Quran is to distribute wealth (Qardhawi, 1973). Zuhayli (1985) discussed that there are five assets that compulsorily subject to zakat, which are money, minings and treasures (rikaz), commercial wealth, livestock and fruits.

zakat management develops from time to time which can be grouped into 4 periods, namely the period of the Prophet Muhammad, the khulafa 'rashidin, the Islamic caliphates and the modern era. At the time of the Prophet Muhammad, the zakat collection was conducted traditionally. The operational of amil are grouped into five, namely a) catabah, administrator for writing and recording, b) hasabah, officers who calculate and estimate the total of zakat, c) jadzabah/akhdzah, officers who collect zakat from muzakki, d) khazanah, officers who safekeeping zakat and e) qasamah, officers who distribute zakat (Nasution, 2006). In the period of the khulafa 'rashidin, the zakat management have developed according to variety arise and it happens until the period of Islamic caliphates.

The amount used is 2.5 percent of gold and silver with a minimum amount of wealth

(nisab) of 85 grams and reaches one-year possession (haul). Meanwhile for the agriculture, it charges 5 percent of agriculture with paid irrigation or special irrigation and 10 percent for rain-fed agriculture without certain payment. The amount of zakat in these assets has been determined in Sharia.

In this modern era, Qardhawi (1973) described in detail about zakat on salary and other related zakat that shall be issued. Opinions about the amount that must be issued for zakat are:

1. one-tenth taken from the net income after deducting the costs, debt and basic needs this is equivalent to agriculture products with rain-fed systems. The net income is gaining from revenue generating assets such as from factories, buildings, printing, hotels, cars, airplanes and the same things;
2. a fortieth (2.5%) taken from profit of the generating assets in the trade sector is equivalent to the zakat of gold as in accordance to the provisions of nisab (taxable limit) and haul;
3. a fortieth (2.5%) taken from a salary/professional income or assets with maturity. This amount follows the concepts of Ibn Mas'ud and Muawiyah who have deducted a certain amount for the salaries of soldiers and other employees (Qardhawi, 1973: 488-489). The development and comparison of zakat management can be seen in the following table.

Table 1 : Comparison of Zakat Management in Islamic Era

Aspect	Initial Period	Caliphate Period
Collection Agent	Appointment of amil in a simple structure	Government bodies in more complex structure
Distribution Program	Dominated by consumptive programs; minimum productive-based program	There is an improvisation in the distribution program
Zakat Object	Limited to the source that are explicitly stated in the Qur'an and hadith	The object sources subject to zakat is expanded along with the economic development of ummah
Zakat Management	Simple institutional structure; limited territorial coverage	More complex institutional structures; wider territorial coverage
Regulation and Governance	Zakat regulation and governance are directly under the guidance of Prophet Muhammad	Not only refers to Quran and hadith, but also zakat regulation and governance arise in a simple form

Source: Beik, I.S., et al (2014) Zakat Core Principle

The collection of zakat from period to period has developed following the needs and the current development. In zakat payment, Islamic scholars have different opinions. Hanafi scholars allow to pay zakat in other form of values while the Syafi'i and Zahiri only allow the same item. Maliki and Hanbali allow monetary value to certain items and forbid a few specific items. Based on the scholars' opinion, zakat management institution is expected to be able to cover various ways of zakat payment in order to accommodate a diverse community. Facilities offered such as payments in the form of money, commodity goods, electronic money, transfer and etc. are presented for the convenience of community in paying zakat (Beik, et al, 2014).

ZAKAT MANAGEMENT

Zakat management develops along with the economic development of ummah. At the beginning of zakat management, the Prophet gave examples and practices to the companions. As prescribed in Medina, the Prophet held two roles as a religious leader and state leader. The concept of zakat management practiced by the Prophet is under the administration of Islamic government. The management carried out under government and institution is actually to support the core goal of zakat, such as fighting poverty and minimizing the gap between rich and poor. This concept is not entirely criticised as in this case Islam is a religion and state (Rofiq, 2004).

In the context of modern management, zakat is managed by referring to the management stages like planning, organizing, actuating, and monitoring. Conceptually, planning is the process of thinking about the goals and objectives to be achieved, actions that must be implemented, forms of organization that are permanent to achieve, and people who are responsible for the activities to be carried out by an institution. Zakat planning includes several things such as: a) setting goals and objectives of zakat as guided by Islam, b) establishing the form and structure of zakat institution in accordance with current regulations, c) establishing and planning procedures for collecting, managing, recording, distributing and a good governance, d) determining the period of collection and the distribution appropriately, e) determining the amil who are competent, committed, integrated, professional and understands zakat and its related aspects, f) establishing a monitoring system for planning, strategy, management, implementation, development and evaluation that are continuous and sustainable (Jaelani, 2016).

In order to implement zakat planning, it require organizing with structural approaches such as organizational charts. It is started with the leaders and advisory board, supervisory and fatwa board, heads of division, managers, teams and others. Every position is interpreted in the form of duties, obligations, responsibilities, authorities, limits and job descriptions. Organizing zakat institution must be based on trust and partnership so it can create elements of mutual assistance and responsibility. The appointment of amil have to structurally and functionally suitable with its respective capabilities and have to possess a good understanding of zakat. This knowledge should be owned by not only the

top level of management, but also the middle and low level of management.

In the implementation aspect, zakat institution must have professional amil who are competent, high integrity and responsible. Determination of amil is greatly determining the success of zakat institution both the institutional and the main objectives like reducing poverty and helping the poor. There are three steps in the implementation of zakat institution, which are: 1) Selection and determination of amil (based on the requirements of amil); 2) Forming and finding the source of zakat funds by forming zakat units/zakat counter at certain places, zakat training and promotion, cooperating with mosques and other institutions, and creating Islamic bank accounts etc; 3) Distribution of zakat funds by making priority scale, distribution allocation, recording the mustahik (Jaelani, 2016).

Monitoring or controlling is performed to measure, improve and develop the overall performance of zakat institution. It is started from both institutional structure and function at all levels of management and especially on the performance of amil. The pattern of supervision can be carried out as follows: a) establishing operational systems and standards in accordance with Sharias and such as reporting, auditing and publications legislation, b) measuring the performance with the achievement of job description standard, c) improving the irregularities and errors with requirements that have been determined by zakat institution (Jaelani, 2016).

UTILIZATION OF ZAKAT

The determination of eligible recipients of zakat (mustahik) has basically been determined in Surah At-Taubah verse 60:

“Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise.” Thus, only the eight groups mentioned who are entitled to zakat.

In the period of the Caliph Abu Bakr (ra), there is no ijtihad regards to zakat management, however it follow what had been done by by the Messenger of Allah. The notable event during the Caliph Abu Bakr is the hypocrites refused to pay zakat. The refusal of zakat was responded firmly and strongly by the government of the Caliph Abu Bakr by waging war against them. During the Caliph Umar Ibn Khattab, various improvements emerged in zakat management. Specific office/departments are established in order to administer the government needs including baitul maal which deals with the administration and zakat management. Additionally during the Caliph Umar, there is termination of zakat allocation for the mualaf (a new convert) (Usman, 1994). The justification of the scholars of Umar’s ijtihad are that the converts obtain zakat to strengthen their hearts that are still weak. However at that time Umar did not found

this condition and the condition of the Muslims were very strong and solid. This ijtiḥad therefore were not refused by the companions, and became an ijma' of the companions (Beik, et. Al, 2014). In the asnaf aspects, Umar also conduct an ijtiḥad by grouping the mustahik into twelve groups that were introduced with the social mutual (al-takaful al-ijtima'i).

The eight groups that are entitled to zakat as mentioned in The Quran are:

The needy and the poor. There is an opinion from Abu Yusuf who is a follower of Imam Abu Hanifa, and Ibn Qasim who is a follower of Imam Malik, that the needy and the poor are from the same group. While the majority opinion of the scholars opine that the two groups have differences in prioritizing zakat distribution. Imam Tabari gives a definition of the needy which means a person who is in need but he or she does not beg to others, meanwhile the poor is a person who is in need and beg to others. According to the opinions of Hanafiyah, the needy is a person who has no wealth below the zakat nisab (taxable limit) comprising household, goods, clothing and others for the daily needs. The poor is defined as people who have nothing. In short, the criteria of the poor according to Hanafiyah are: a) no wealth; b) having a place to stay, goods or furniture that is not excessive; c) having monetary currency less than nisab (taxable limit), d) having other wealth beside monetary currency that is less than nisab (taxable limit) such as four camels, thirty-nine goats worth no more than 200 dirhams. Meanwhile according to the three other scholars (Malikiyah, Syafi'iyah, and Hanabilah), the needy is people who do not have assets or limited income in fulfilling their needs and the people who are under their care such as clothing, food, house and other basic needs for individuals or people who are under their care. The poor is described as those who have assets or reasonable income in fulfilling their needs and their dependents', but the wealth does not fully cover their needs (Qardhawi, 1973). According to Syafi'iyah and Hanabilah, the needy is a person who does not have any wealth and job, while the poor as in Surah al-Kahf: 79 "As for the ship, it belonged to poor people working at sea," The poor has a job but has not enough covered their daily need or people in their dependents like the wages only 8 dirham and the daily needs are 10 dirham (Zuhayli, 1985).

Amil of zakat (zakat administrator) are those who manage all zakat activities, starting from collecting zakat funds and safekeeping it. The role of amil is very important as it is stated after the needy and the poor. Amil collect the funds to be handed to the treasurer of Baitul Maal, safekeep it and then distribute it to the other mustahik (zakat recipient) groups. Regarding the zakat part given to amil, the scholars have different opinion. Imam Shafi'i considers the portion of amil to be similar with the other groups, which is 1/8 of the total fund collection. However, if the wages given are not sufficient with their work, it can be added out of the zakat fund. This is supported by the opinion of majority scholars who declare that zakat administrator wages must be sufficient with the work even though the wages are greater than specified (Qardhawi, 1973).

The group of converts. Those who have a heart tendency or iman are likely to increase to Islam, or the erasure of their bad intentions towards Muslims or will come from them willingness to defend and help Muslims against the enemy.

Freeing slaves. This is seen into two views. First, helping the slaves who has an agreement with their master to be freed by seeking a certain amount of wealth to free them self. Second, Individual or jointly use their wealth to free slaves, or buy slaves and give them a freedom.

People who are in debt (gharim). Imam Abu Hanifah define gharim as a person who has debts and does not have any asset to pay his debt, while Imam Malik, Imam Shafi'i and Imam Ahmad calssify the gharim into two categories based on the consequences, namely 1) people who are indebted for their own benefit and 2) people who are indebted for the benefit of society. Furthermore, people affected by disasters are included in this group as founded in the hadith of the Prophet.

People who fight God's way (sabilillah). Determination of sabilillah among Islamic scholars is different. The scholar from Hanafi school determines sabilillah in various ways with the condition that there is a poverty and a need such as the army, Muslim pilgrims, knowledge seeker (student) or people who fight for goodness. The Islamic scholars Maliki argue that sabilillah is related to war, jihad and so on. The mujahid and the border guards are allowed for jihad such as weapons, kud, castles, warships and others. The Syafi'i scholar are in line with the Maliki that focus on jihad and mujahid, however there are two differences, namely 1) determining the mujahid do not to get a fixed salary from the state, 2) their share should not exceed the two priority groups of the needy and the poor. The Hanbali is in line with the opinion of the Syafi'a, there are only a few differences related to poor pilgrims.

Ibn Sabil, which is stated eight times in the Quran, is a musafir (traveller). Islamic scholars have different opinion in the category of people who plan to travel and people who get lost on the way. Jumhur stated that people who plan to travel are not entitled to zakat as they are still in their area and not in a foreign group, and they do not call sabil, while Imam Syafi'i allows them to be musafir (traveller) or intended to travel.

Had Kifayah

The criteria of had kifayah for the needy and the poor in every Islamic country and zakat institution are different from one another. The main source of the criteria refers to the Quran and hadith texts while the interpretations and explanations are different based on the perspective and the condition. The zakat institutions see the poverty level that has been carried out by supporting institutions such as statistics and population bureau or other related institutions to determine the poverty level or had kifayah. Some countries use the individual approach and some others use a household approach. Each countries

have a different criteria in determining the needy and the poor according to the amount of income or daily or monthly expenses. This happens because the economic level and the country natural resources are different one another.

Malaysia through Waqf, Zakat and Hajj Department (JAWHAR) has established poverty threshold with the main considerations which include shelter, foods, clothes, health, education and transportation based on Maqashid Sharia. However, the determination is given back to every Islamic Majlis (Islamic parliament) in every state in Malaysia which depends on the number and age of family members (JAWHAR, 2007). Parid (2001) discuss that zakat distribution is at least meet the needs of individual lives and the dependents. The amount of zakat funds given to the needy and the poor have to be in line with a quality life as the distribution of zakat funds is to fulfil the basic needs (dharuriyyat and hajjiyat) (Al-Habshi, 1990).

In Indonesia, a study of the Had Kifayah has been carried out by BAZNAS Centre for Strategic Studies. Had kifayah calculates the standard of basic needs of each family based on Maqasid al-Sharia perspectives. There are 7 (seven) dimensions used to calculate the standard of Had Kifayah, namely: (1) food; (2) clothes; (3) house; (4) worship; (5) education; (6) health; and (7) transportation. Furthermore, the number of family members covered in calculating had kifayah is 4 (four) people. This calculation is subjected to the condition. In the event of a family member exceeds 4 (four) people or less than 4 (four) people, or there are family members with a special need, the amount of had kifayah can be adjusted to the actual number of family member and the condition of each family member.

The average of had kifayah in Indonesia reaches Rp. 3.022.142.00 per family per month or Rp. 772.088.00 per capita per month. Based on the results of this calculation, the eligible recipients whose the monthly income is still under had kifayah can be prioritized to be assisted with consumptive program, however, if the mustahik have the income above had kifayah but still under the nisab, then the assistance can be provided in the form of productive program (BAZNAS , 2018a)

Consumptive Program

Zakat is a pillar of Islam which contains two aspects, the worship in specific and the worship in general. Beside to purify the self and wealth, Zakat also has a function to fight poverty in the community. The muzakki pay zakat of their wealth to fight poverty around their environment. A poverty will always exist as a form of sunnatullah, however it cannot be neglected without any action to reduce the number of poverty. The minimizing action required by Islam is a proper management of zakat so that it reduces poverty in an area. The achievement of zakat management in implementing community goals is by fighting the poverty through a good distribution and management (Qardhawi, 2005).

An significant concern must be given to zakat management which ensures the

optimal utilization of zakat to mobilize Muslims, the needy and the poor and to improve the quality of life. Zakat can be distributed in two forms, first; a direct financial assistance to the needy and the poor who do not have a decent life, good health, and encourage them to live sustainably. Second; a tool to actuate the industries and trades as a working equipment for the needy and the poor with special expertise, working capital for the poor merchant, seeds for those who are interested to agriculture and livestock and other assistance that is suitable with the capacity and expertise. This is in line with the opinion of Imam Al-Nawawi who encourage the needy and the poor to be assisted according to their skills so they can move out of the poverty circle. There are two concepts offered in the distribution of zakat, namely long-term distribution concept (*kifayah al-’umr*) and short-term distribution concept (*kifayah al-sanah*) (Abu Bakar & Ghani, 2011).

In practice, the distribution of modern zakat funds must be able to represent economic aspects both micro and macro. In the micro aspect, zakat distribution in a form of consumptive programs that can be directly realized by the *mustahik*. The consumptive programs that can be carried out by zakat institutions are the distributions of staple foods, clothing, or similar items as had been demonstrated by the Prophet Muhammad and his companions. In addition, other forms that can be done in the short term are the health assistance, cash for daily consumption and so on. The direct function of poverty alleviation must not be eliminated from zakat distribution for the continuity and sustainability of the life of *mustahik*. Meanwhile, in macro aspect, it can be seen from the movement of macro variables such as the consumption level, an investment which stimulates production and consumption simultaneously and suppresses the imbalance of country fiscal.

Productive Program

The socio-economic aspect which lifting the needy and the poor out of poverty life to a decent and prosperous life is one of the core requirements of zakat. Giving zakat to the needy and the poor that can lift them from poverty to competence, from lack to sufficient and not returning to poverty is the focus of zakat (Sabiq, 2005). Al-Syiddiqy (1987) states the same thing, the distribution of zakat funds to the needy and the poor is recommended to be able to fulfil their life and make a business capital.

The concept of short-term distribution certainly supports the needy and the poor to live, but the concept of long-term distribution helps the needy and the poor to live at better level, at least it can lift the poor from *mustahik* to become those who are not entitled to zakat and even better become *muzaki*. In order to achieve that, therefore zakat institution introduces the concept of productive zakat. Productive zakat is an approach in the zakat distribution which makes the *mustahik* continuously produce something with the zakat they receive by developing it in a form of productive enterprises (Asnaini, 2008).

Productive programs in zakat distribution are presented to meet the needs of the needy and the poor for a better life in various ways such as capital assistance in the form

of cash, tools and equipment for the mustahiq who have special skills; trading, carpentry, gardening, farming and so on. The assistance of productive programs also can be in the form of training and capacity enhancement, educational assistance like scholarships for the needy and the poor, assistance for education and da'wah institution and other community empowerment.

ZAKAT ACCOUNTABILITY

Administrative Accountability

There are three types of zakat management that has been applied, first; management is carried out by voluntary institution (voluntary) without government intervention, second; zakat collection is carried out by the government which based on a voluntary individual initiative, and third; management is fully carried out by the government. The three existing scheme are having their respective advantages and disadvantages. These scheme characteristics in management, collection and distribution of zakat can be seen on Table 2.

Table 2: Scheme Characteristic of Zakat Management in Several Countries

	Characteristics of Collection	
	Mandatory	Voluntary
Government	Saudi Arabia, Pakistan, Sudan, Libya, Republic of Arab Yemen, Kuwait, Malaysia (Johor, Kedah, Kelantan, Perak, Perlis, Sabah and Terengganu)	Bangladesh, Bahrain, Jordan, Indonesia
Institution cooperates with government (corporation)	Malaysia (Pinang, Selangor, Sarawak, Negeri Sembilan, Pahang, Melaka, and Federal Territory)	Singapore, Egypt
NGO	-	South Africa, Algeria, Indonesia

Source: Beik, *et al.* (2014)

Saudi Arabia enacted zakat management based on the kingdom regulations which was began in 1951 which previously was not regulated in legislation. The Royal Court No.17/2/28/8634 dated 29/6/1370 H or 7/4/1951: "Shar'i Zakat as in accordance to the provision of Shariah Islamiyyah, is obligated to the individual and cooperation of the Saudi nationality". To manage zakat management, the government of Saudi Arabia forms a special department of Division of Zakat and Income Tax (Maslahah Al-Zakat wa Al-

Dhakh), under the Ministry of Finance, and the distribution by the Department of Social and the Employment under the Director General of Social Security (Dhaman Ijtima'i). The management process is based on the principle of transparency and accountability with the e-filling system to the Department of Zakat and Income Tax (DZIT) that is carried out by individuals and companies. The zakat collection is performed in five forms, namely field workers, salary deductions, collection staff, system of debit demand and collection in offices.

The accountability conducted by DZIT in zakat management and taxes includes; 1) reviewing, assessing and collecting zakat funds from Saudi citizens and residents of the Saudi and residents from the gulf country; 2) reviewing, assessing and collecting taxes from individuals and cooperation to the taxpayer object; 3) following up on the deadbeat of zakat, taxes and penalties; 4) developing the working procedures by improving research and studies to find the solutions of the problems arise in their applications; 5) publishing statistic reports of DZIT operation including: taxpayer numbers, categories, locations and activities. Submitting an annual report on the achievements, income, and expenditure of DZIT to the authorized parties (Al-Awaji, Deputy Director of DZIT). The application of zakat management in Sudan is in line with Saudi Arabia which is under the Department that regulates zakat and taxes, namely the Zakat Bureau of the Ministry of Information and Planning which is regulated in the Zakat Law of 1984. Zakat Laws Sudan allows zakat distribution in the same province area or transferred from one province to another by the President.

Zakat management in Kuwait under Zakat Law in 1982 and the legislation No. 46 dated 2006 under the responsibility of the Kuwait Zakat House, Ministry of Waqf and Religious Affairs. Collection is carried out on voluntarily by obliged zakat payers (muzaki) and requires corporations to pay zakat 1 percent of the net income earned in one year. The Kuwait Zakat House focuses on the strategic planning, by adopting scientific methodology and planned studies.

Zakat management in Pakistan is regulated in the Zakat and Usyr Law in 1979 and developed by the legislation 1980. The Central Zakat Fund is the centre of overall zakat management in Pakistan with four provincial zakat funds, 81 local zakat funds and up to the smallest unit level in the region. The distribution is given to eight groups of zakat recipients with priority scale stated in the law "the top priority is given directly or indirectly to the needy and the poor especially widows, disabled people through formal education in schools, skills education, hospitals, clinics, and others. However, the system running in Pakistan has not been maximized by the weaknesses in auditing, comprehensive planning, ineffectiveness in the distribution and the absence of zakat income and zakat profession.

Malaysia has a pattern of zakat management that is different from other Islam countries. The kingdom has the Majlis of Religion, the State Islamic Religious Councils (SIRC) in every state (province) through the 1986 Federal Law given a power to take

care of Islamic issues, including waqf and zakat (Zaenal, et al., 2016) then authorized by the Department of Zakat and Hajj (JAWHAR) in 2004 by Prime Minister Tun Abdullah A. Badawi to pay special attention to the zakat institution. JAWHAR only monitors and coordinates with the Islamic Religious Council in each country (province). These thirteen states have their own regulations, which are coordinated by the Prime Minister's Office through the Directorate of Islamic Development. To facilitate the administration of zakat collection and distribution, a small amil unit was established which is called the Pusat Pungutan Zakat (PPZ) in 1991. The level of effectiveness and efficiency in managing zakat funds both collection and distribution varies from state to state. Zulkefly, et al. (2002) state that it is important to compare the role of the Selangor Zakat institution which is considered as the most effective zakat institution than the others.

The administrative process that occurs in zakat management institutions is expected to be transparent and accountable. To maintain the performance of the institution and guarantee the image to the public, the transparency of the zakat management institution must be done by providing financial information openly and honestly to society for the responsibilities in the management of the entrusted resources and the compliance with applicable laws. Furthermore, the accountability can be an ignition of the society trust to channel zakat through zakat institutions. Accountability is a form of responsibility of zakat manager and a form of policies implementation that are entrusted to the reporting institution in reaching the objectives that are determined periodically. Accounting, transparency and accountability in zakat institutions must be realized properly in order to achieve the core objectives of zakat management.

ZAKAT MANAGEMENT IN INDONESIA

Zakat management in Indonesia has begun in the early era of the Islamic empire in this country. The Islamic kingdoms of Aceh, Banjar, Demak and others have implemented zakat management system even though it is very traditional. In Aceh, zakat and tax payments (tribute) was paid together with agricultural crops (Faisal, 2011 in Hollander, 1895). The kingdom of Banjar regulated zakat and tax payment to the Mantri Bumi, an expertise from royal citizens (Rass, 1968).

During the Dutch, Allied and Japanese colonial periods, the payment of zakat was stagnant because the invaders knew that zakat was used to fund the battles that occurred in the regions so the invaders banned it (Ali, 1988). However, at the beginning of the twentieth century, the colonial government lifted its ban by issuing regulations in orinantie of Netherlands Indies government No.6200 in 1905 stating that they will not interfere in the management of zakat and be given entirely to Muslims (Faisal, 2011).

During the Indonesian independence phase, the 1945 Constitution (UUD 1945) stated in Article 29 regards to the permission of Sharia implementation and Article 34 about children and the poor are the responsibility of the state. In 1951, it was noted

that the Ministry of Religious Affairs had issued a government circular regarding the implementation of zakat al-fitr (Depag, 2002). In the New Order period, a competition between nationalists, Muslims and secularists, have a deficient psychological condition made zakat management nonoptimal which only ranged among individuals. Government relation with zakat management are suspicious to each other (Jaelani, 2016). Starting in 1968, the New Order government gave a space by issuing Presidential Decree No.7 / PRIN / 10/1968 regarding zakat management, and thus the National Zakat Agency, Infaq and Sadaqah (BAZIS) was established starting from DKI, East Kalimantan (1972), West Sumatra (1973), West Java (1974), Aceh (1975), South Sumatra and Lampung (1975), South Kalimantan (1977), and South Sulawesi and West Nusa Tenggara (1985). As one region has a different procedure with another region, problems are mostly arise in terms of synergies and mechanisms of cooperation between institutions and government and the private sector (Ali, 1988).

The zakat regulation continue in 1984 regarding the instruction of the Minister of Religious Affairs No. 2 about Infaq by giving one thousand rupiah during the Ramadan month. In 1989, the Minister of Religious Affairs issued an instruction to do a training for zakat infaq and sadaqah to Islamic institutions who managing zakat, infaq and shadaqah for Islamic education institutions and other. Then, in 1991, a joint decree was issued between the Minister of Religious Affairs and Minister of Home Affairs No. 29 and 47 for the guidance of the National Zakat, Infaq and Sadaqah Agency and continued with the Instruction of the Minister of Religious Affairs No. 5 of 1991 regarding the guidance of technical guidelines for BAZIS (Fakhruddin, 2008).

During the reform era, zakat management obtain the freedom with the enactment of Law No. 38 of 1999 concerning Zakat Management issued by the government. Zakat management became massive in the national level to the regions with the consequence of the National Board of Zakat (BAZNAS) formation at the national level and the Regional Zakat Agency (BAZDA) at the regional level. BAZNAS was formed based on the Presidential Decree No. 8/2001 dated January 17, 2001 (Fakhruddin, 2008)

The latest Law related to the Zakat Management is Law No.23 of 2011 and it is interpreted in the Government Regulation No.14 of 2014 concerning Zakat Management. These two basic legal instruments have strengthened the zakat management system, from the process of collecting, managing, reporting, distributing and auditing on the basis of high transparency and accountability. The direction and objectives of zakat management are getting clear with these two regulatory instruments. The current phase is the transition phase towards the resurrection of zakat, with the synergy of the government, BAZNAS, BAZNAS Province and Regency/City and LAZ. The strengthening and the institutional reforms are considered to be more effective in optimizing the results for the collection and distribution that are more efficient and more effective

ZAKAT INSTITUTIONS

Organization and work procedures of zakat management in Indonesia nowadays is regulated in Law Number 23 of 2011 about Zakat Management. The Law is a substitute for Law Number 38 of 1999 concerning Zakat Management which previously became the legal basis for the zakat management in Indonesia.

Law No. 23 of 2011 specifically give a mandate to the National Board of Zakat (BAZNAS) as the main executor in the zakat management in Indonesia and the government has a function as a guide and supervisor to the zakat management carried out by BAZNAS. The change in the regulation has substantively transformed a system of zakat management in Indonesia. The zakat management system based on Law Number 23 Year 2011 will be clearly discussed in management procedures as follow.

Based on Law Number 23 Year 2011, BAZNAS is formed by the government in performing the authority of zakat management nationally. The authority to implement the collection, distribution, and utilization of zakat nationally includes 4 (four) functions that precisely stated in Law Number 23 in 2011, as follows: (a) the planning function of zakat collection, distribution and utilization; (b) the implementing function of zakat collection, distribution and utilization; (c) the controlling function of zakat collection, distribution and utilization; and (d) the reporting and accountability function of zakat management (Article 7).

Apart from the four implementing functions of zakat collection, distribution and utilization nationally, BAZNAS also has 2 (two) non-operational functions of zakat collection, distribution and utilization, namely: (a) giving a consideration for BAZNAS formation in BAZNAS province and district/city (Article 15) and (b) giving a permit recommendation for the formation of the Zakat Institutions (LAZ) (Article 18).

In providing an operational enlightenment of the Law Number 23 of 2011, the Government issued Government Regulation Number 14 of 2014 about the Implementation of Law Number 23 of 2011 about Zakat Management. In the Government Regulation, BAZNAS obtains a number of additional authorities beyond the functions of collection, distribution and utilization of zakat.

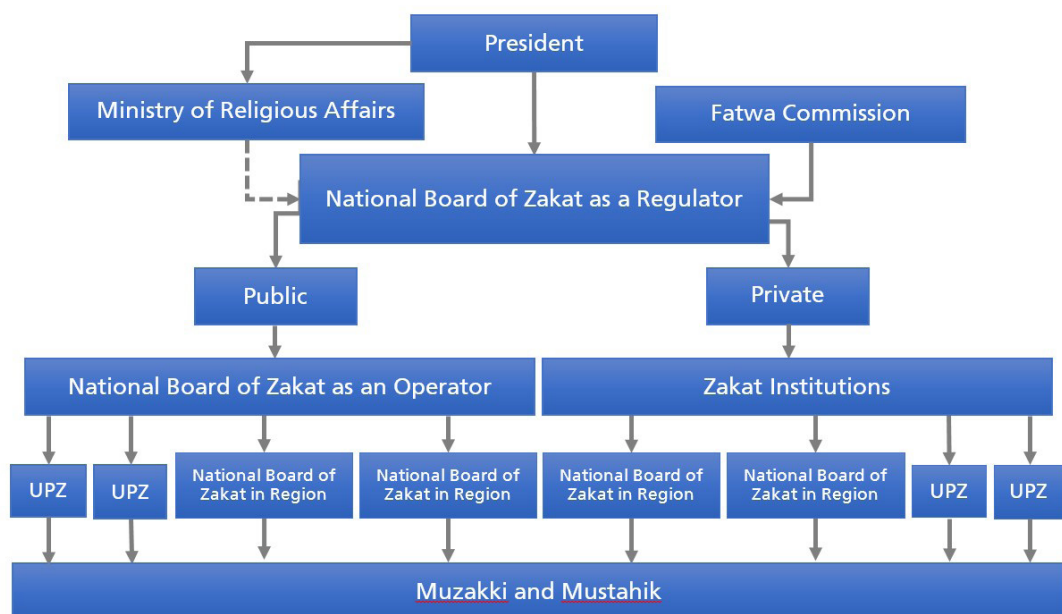
There are at least 4 (functions) which then strengthen the position of BAZNAS as a regulator in the zakat management in Indonesia, namely: (a) giving a consideration to the appointment of BAZNAS leaders in BAZNAS province and district/city (Article 36 & Article 43) and (b) Authorization of the rights of amil and budget planning/RKAT of BAZNAS province an district/city (Article 69). With these two "non-operational" functions, actually BAZNAS (in national scale at the central, different from BAZNAS province and district/city) has two functions simultaneously which are operator function and regulator function.

In Law Number 23 of 2011 and the Government Regulation Number 14 of 2014, both of them reinforce each other that the main authority in the implementation of zakat management in Indonesia is the government, in this case through the Ministry of Religious Affairs. BAZNAS as the executor of authority for national zakat management in Indonesia is appointed by the President of the Republic of Indonesia after obtaining a consideration from the parliament of the Republic of Indonesia (DPR RI).

The institution structure of zakat management or zakat institution in Indonesia, besides BAZNAS at the central level, there is also BAZNAS at province level, BAZNAS at district/city level, assisted by the Zakat Institutions (LAZ) at national level, LAZ at province level and LAZ at district level/city. With the current OPZ formation, each government, from the central to the regions in the entire government administration in the Republic of Indonesia, actually has a function as a regulator. Beside the role as an appointment function of the OPZ leaders from the central to the regions, it also has a role to provide a conducive situation for zakat management in Indonesia based on the level of the territory of the government. In maximizing the zakat management, the Zakat Management Organizations (OPZ) as the executor of the government, are also projected can actively participate in the process of zakat risk management as described in the previous chapter.

The structure of zakat management institutions in Indonesia can be illustrated in the following figure:

Figure 1: The structure of Zakat Management Institutions in Indonesia



URGENCY OF RISK MANAGEMENT FOR ZAKAT INSTITUTIONS

A public financial institution, including zakat institution, has a strategic position as institution who manage the funds of ummah, especially zakat. As a strategic non-profit organization, the zakat institution has become a new hope to improve the welfare of ummah. In addition, banking institutions have also become one of the agents of development in encouraging the development progress through the distribution and utilization services.

Of course, in carrying out their duties and functions, zakat institutions must be exposed to various type of risks. To keep the functions and duties running properly and maintain the sustainable of the business process, the zakat institution is required to manage the risks effectively.

Risks in the context of zakat is a potential event, can be both anticipated and unanticipated that have negative impacts on the trust level, sharia compliance and sustainable of the business processes. These risks are inevitable, but can be managed and controlled. Therefore, like other institutions in general, zakat management also require a series of procedures and methodologies that can be used to identify, measure, monitor and control the risks arising from business activities, or commonly known as risk management.

The risk management is targeted at identifying, measuring, monitoring, and controlling the process of zakat management with a reasonable risk in a directed, integrated and sustainable manner. Thus, risk management has a function as a filter or an early warning system for zakat management activities. In general, the urgency of risk management in zakat management can be divided into five (5) such as: (1) Providing information about risks to the regulators and other involving parties; (2) Ensuring zakat institutions do not experience the opportunity-loss even it is unacceptable; (3) Minimizing the opportunity-loss from various uncontrolled risks; (4) Measuring the risk exposure and concentration; (5) Ensuring the sharia compliance in the zakat management, especially risk mitigation.



RISK MANAGEMENT FRAMEWORK FOR ZAKAT INSTITUTIONS



The following chapter explains the stages of risk management in zakat institutions. These stages are then divided into several steps, namely the risk identification process, the risk measurement process, the risk heat map development process and the risk mitigation process. A discussion of each step is given below.

RISK MANAGEMENT MODEL FOR ZAKAT INSTITUTIONS

Zakat is an instrument that has strategic value in the community development of a country. It is a social instrument that can have a very significant impact if it is managed correctly and professionally. Iqbal (2014) describes zakat as a redistributive pillar which help the extreme poor and the poor to escape from poverty and eventually become financially included. Therefore, in the IDB Expert Meeting in December 2012, it was agreed to make the instrument part of the assessment of the stability of the Sharia financial system in a country. This was done by introducing the new term “Islamic social finance”.

This step was taken as part of the core Financial Sector Assessment Program (FSAP) for Islamic Finance, developed by IRTI-IDB (Muljawan, 2011). This core is expected to be a reference for assessing the health of the Islamic financial system, as well as an indicator for identifying sectors in the economy with the potential for having a positive multiplier effect on economic development, or conversely for creating a negative systemic impact if it is not managed properly.

In this context, the very strategic, especially when considering the economic potential of the role of zakat becomes instrument. The study of Firdaus et al. (2012) reveals that the potential of national zakat reached Rp217 trillion, equivalent to 3.40 percent of Indonesia’s GDP, in 2010. This potential is divided into three major groups, namely the potential zakat of individual income (households), which was Rp83 trillion; the potential zakat of companies, both BUMN and the private sector, which stood at Rp. 117 trillion; and the potential zakat of savings, which was Rp. 17 trillion. In comparison, another study by the Public Interest Research & Advocacy (PIRAC) found that the zakat potential in Indonesia was around Rp. 20 trillion per year, while ADB predicts Rp. 100 trillion per year.

Although the zakat potential was Rp217 trillion, the actual amount collected by the authorized BAZNAS and LAZ throughout Indonesia did not reach the optimal rate. Based on official data from the National Board of Zakat (BAZNAS), national zakat collection only reached Rp6 trillion in 2017 based on 2017 National Zakat Statistics (BAZNAS, 2018b). This figure was a significant increase from 2002, when collection only stood at Rp68 billion, but if compared to total potential, the gap is still very large. Actual zakat collected is still less than five percent of the total potential.

There are of course many factors that have led to the optimal use of zakat instruments in national development. The main factors include the poor governance of zakat, which has resulted in the less than optimal national zakat management system. Moreover,

such governance issues are also faced at the global level. For this reason, since August 2014 the idea of formulating a document that can become a reference for international zakat management has been mooted, with the aim of improving zakat management. This idea is being implemented in the form of the International Working Group on Zakat Core Principles (IWG ZCP), initiated by BAZNAS, Bank Indonesia and the Islamic Development Bank (IDB).

To date, IWG ZCP activities have been undertaken four times and have produced a draft document consisting of six dimensions and 18 main principles of world zakat management. These six dimensions are the legal basis for zakat management, zakat supervision, zakat governance, the intermediation function, risk management and Sharia compliance. They represent the basic and fundamental areas that must be improved in order to strengthen and optimize the governance of the zakat system in a country. Based on the two dimensions of zakat governance and risk management, draft Technical Notes on Risk Management for Zakat Institutions and Good Amil Governance have been produced. This process has involved a number of zakat authorities and institutions from various countries, such as Indonesia, Malaysia, Singapore, Saudi Arabia, India, Pakistan, Bangladesh, Sudan, Turkey, South Africa, the United Nations, the World Zakat Forum and the World Bank.

Among important components of the Zakat Core Principles (ZCP) discussion is the risk management aspect of zakat management. This is a very new concept in the Islamic social finance world and there is no previous concrete formulation that can be used as a reference. Risk management has been studied and developed in commercial companies, including in the commercial Islamic finance industry, such as Islamic banking, but in zakat institutions this aspect of risk management attracted no attention or discussion from zakat activists until it was discussed in the IWG ZCP meeting. In the ZCP document, the risk that has been identified can be grouped into four types, namely reputation and muzaki loss risk; zakat distribution risk; operational risk; and international zakat transfer risk.

The modelling of risk management in zakat institutions consists of five stages: the context formation phase, risk identification, risk measurement, risk evaluation and risk treatment. The first stage begins with the formation of the context identified from the literature review and in-depth interviews with practitioners who understand the internal environment of the zakat institution and continue with setting the goal of context formation.

The second stage is identification of the risks and their impacts. This starts by determining groups or risk clusters, which facilitates such identification, followed by confirmation of the risk findings and their impact on practitioners of the related entity.

The third stage is the risk measurement phase. In this stage, several criteria and measurement scales that are in line with the needs of the zakat institution can be used, which will measure the level of possibility, impact, vulnerability and speed of any risk. Risk measurement and its effects is conducted by related entities that understand the associat-

ed problems. The data that have been collected are then processed in the data processing stage, with the processing performed with several suitable methods. Because it involves four measurement criteria, the risk management model will produce a map of risk level called heat map risk management.

The fourth stage is risk evaluation. After obtaining the risk level based on assessment of the level of possibility, impact, vulnerability and speed of the risk, analysis is then made of priority risks and impacts. Before the final results can be used as the basis for establishing the managerial implications, the results of the validation are distributed to the practitioners of the related entity.

The final stage is risk treatment. The related entity managers play an important role in identifying risk mitigation that is appropriate to the level of risk and its impact. The stages of risk management in zakat institutions are illustrated in Figure 2.

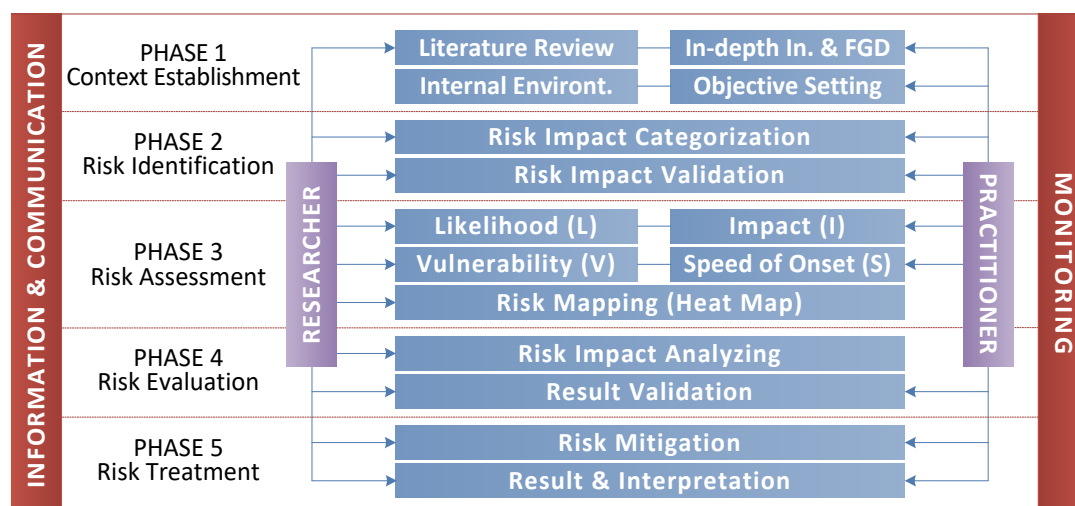


Figure 2: Stages of Risk Management using COSO ERM Modification

RISK MANAGEMENT IDENTIFICATION PROCESS FOR ZAKAT INSTITUTIONS

It is not easy to identify the risks to non-profit organizations and the mitigation of these because all risks are connected to almost all aspects of organizational decision making. Some research focuses on risk identification in non-profit institutions. Studies include those of Godfrey (1996), Herman et al. (2003), Bertrand and Brown (2006), Young (2009), Carter and Demcruz (2013), Benjamin et al. (2014) and Clontz and Havens (2015). Based on the literature, the risk identification of zakat institutions often refers to the identification of the risks of non-profit institutions.

Studies that focus on the risk identification of zakat institutions are still very limited. In the past two years, Bank Indonesia and the National Board of Zakat (BAZNAS)

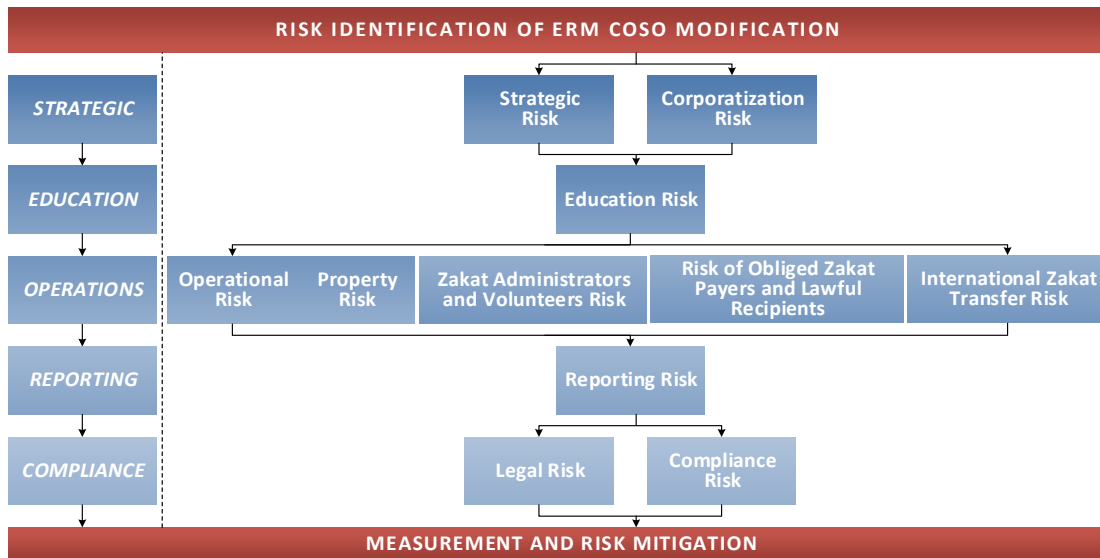
have held the first and second International Working Groups on Zakat Core Principles (IWGZCP). In the first IWGZCP, it was agreed that there are four types of risks identified in zakat institutions: reputational and public trust risk; distribution risk; operational and Sharia compliance risk; and international zakat transfer risk. In the second IWGZCP, one of the discussions was about the technical notes regarding the risk management of zakat institutions. It also discuss the various possibilities of risk types that can occur deriving from the four risks, the definition of each risk as well as the indicators of these risk. The fact that Bank Indonesia and BAZNAS have broadened the focus of risk management in zakat institutions shows the importance of this issue.

Every organization, both profit and non-profit, faces different risks. One example is that although an organization is social-oriented, some of these organization still have a commercial risk. Meanwhile being a charity institution does not indicate the possibility of commercial risks. However, this can also happen to charity institutions, such as the risk of institutional corporatization. Based on the risk identification, each institution must plan and implement different mitigations in order to deal with each of the risks.

To identify the risk to zakat institutions, including the impacts, to analyse risk mitigation for zakat management and to design the concept of risk management for zakat management, use of the Enterprise Risk Management (ERM) method with an approach of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is necessary. The data analysis technique in the COSO ERM modification is the development of COSO ERM, which includes the identification process risk, measurement and mapping risk, risk management and planning of risk mitigation strategies in the zakat management of management organizations.

The first step in risk management is to identify the risks that exist in zakat institutions. By doing this, such institutions can obtain a set of information about the frequency of such risks. The information about what impacts that can be caused by the risks, the level of risk speed, and even the level of vulnerability of zakat institutions in dealing with these risks.

Basically, risk identification can be achieved by asking the experts. Expert opinion can be obtained by in-depth interviews with an individual, a group of people, or through Focus Group Discussion. The parties interviewed or involved in the FGD are those who are considered to be experts. In the context of the risk identification of zakat institutions, there are several criteria for defining experts. First, they are those who routinely work with, or handle, zakat management; for example, zakat collection staff, who are experts on the risks of collecting zakat. Second, they are those who have an influence on the strategic policies of zakat institutions, for example their leaders.



Source: Author

Figure 3: Identification of Institutional Zakat Risks

The risk identification of OPZ with COSO ERM modifications can be divided into 11 types of risk, and which can be further elaborated into 36 sub-types of risk, so finally identifying 405 risks.

OPZ risk can be categorized into five risk categories, namely strategic, educational, operational, reporting and compliance. Each risk category consists of several types of risks.

The risk sources of zakat institutions consist of eleven types of risk, namely strategic risk, corporatization, education, operations, property, zakat administrators and volunteers, obligated zakat payers and lawful recipients, international zakat transfer, reporting, legal, and compliance. Strategic risk consists of vision and mission risk, goal achievement and reputation risk. Educational risk comprises external educational risk originating from the community, government and other external parties, as well as the internal educational risk of zakat institutions.

Operational risk consists of collection fund, distribution fund, productive fund, zakat collection, management of zakat collection, management of zakat distribution, network/IT infrastructure, partner cooperation, program development, leadership, competition, and crime/fraud risk. Zakat administrator and volunteer risk comprises the risk of zakat administrators' governance and volunteer management risk. Property risk consists of human, economic and natural disasters. Muzakki and mustahik risk includes the risk of obligated zakat payers, the loss of obligated zakat payers, the satisfaction of obligated zakat payers, the risk of lawful recipients, the loss of lawful recipients, the satisfaction of lawful recipients and the code of ethics risk. Finally, compliance risk comprises Sharia compliance risk and regulatory compliance.

RISK MANAGEMENT MEASUREMENT PROCESS IN ZAKAT INSTITUTIONS

Currently, there are several risk management standards around the world that can be used for reference; for example, Australia and New Zealand use AS/NZS 4360:1994/1999/2004; the United Kingdom uses AIRMIC/ALARM/IRM:2002; the United States uses COSO ERM:2004; and internationally there is also ISO 31000:2009. Although they have been developed with similar objectives, different standards vary in their aspects and components. Based on several previous studies, one of the main references is the application of risk management that is frequently adopted by non-profit entities in several parts of the world, namely the ERM Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO ERM provides guidance on the application of risk management in order to improve the efficiency and effectiveness of the use of resources in reaching organizational objectives.

The basic concept of enterprise risk management (ERM) is that every entity, whether profit-oriented, non-profit or governmental, was established to increase value for interested parties; this plays a strategic role in the success of an organization. Every entity will face uncertainty and risks, which will weaken or strengthen its value. ERM, according to Lam (2003: 45), is a comprehensive core, integrated for managing credit risk, market risk, economic capital and risk transfer, in order to increase the value of an entity. ERM discussion centers on integrating risk management with core management processes so that it can improve organizational performance.

ERM is defined very comprehensively by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Enterprise Risk Management Integrated Framework (2004). It is defined as a process that is influenced by the Board of Directors, management and other personnel in the entity. It is applied in the formation of strategy and in all parts of an organization, being designed to identify potential events that could affect it and to manage risk in accordance with the entity of the risk appetite, and to provide certainty about the achievement of goals (COSO, 2004a).

ERM is not an event or a circumstance, but a series of processes or actions that are integrated into organizational activity. It is influenced by the directors, management and other personnel in reaching the overall objectives at each level and in entity unit. ERM is designed to identify potential events that may affect the entity and to manage risk in order to remain within the entity of the risk appetite. Its purpose is to provide reasonable assurance to management with regard to the achievement of objectives.

The ERM framework is the integration of principles, terminology, guidelines, measures, culture, entity management, and other attributes that will support programs to develop organizational values (COSO, 2004b). The ERM core provides opportunities to management to manage risks that occur, in accordance with the cultural conditions of each company in order to increase its value.

Therefore, it can be concluded that ERM is a method and process used by entities to manage risk and to capture the opportunities related to the achievement of its objectives. ERM provides a framework for risk management which begins with identification of specific events or situations that are relevant to the organization's goals, followed by assessment of the possibility of impacts, determination of the response strategies, and monitoring of the framework. By identifying and proactively addressing risks and opportunities, organizations can protect and create value for stakeholders, including owners, employees, customers, regulators, and society as a whole.

According to COSO (2004a), there are four objectives in the management process, namely strategic, operational, reporting and compliance goals. Strategic objectives relate to long-term goals, which support and are in line with the vision and mission of the entity. Operational goals are related to the effective and efficient use of resources. The purpose of reporting relates to its effectiveness, in order to produce reliable reports, including internal and external reporting. The objective of compliance relates to the fulfilment of laws and the entity's own rules.

The purpose of the entity in the management process that is related must be integrated with the components in the risk management. According to COSO (2004a) there are eight ERM components: the internal environment, goal setting, identification of events, risk assessment, response to risk, control activities, information and communication, and monitoring. The ERM COSO model framework illustrates how the integration occurs, such as in the relationship between the ERM component and the entity's objectives (strategic, operations, reporting and compliance) and levels (entities, divisions, business units, and branches), as shown in Figure 4.

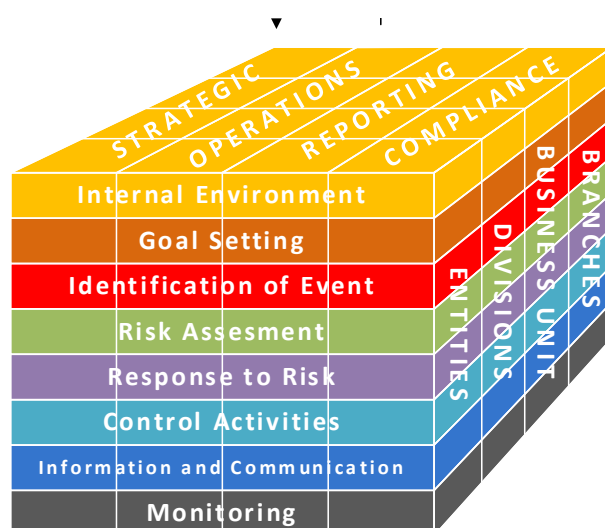


Figure 4: COSO ERM Framework

According to COSO (2004a), there are eight components that are related to each other. These derive from the implementation of activities by management and their inte-

gration with the management process. These components are the internal environment, goal setting, identification of events, risk assessment, response to risk, control activities, information and communication, and monitoring.

The COSO ERM (2004a) core states that an entity will be directed to achieve its objectives based on four categories, namely strategic, operational, reporting and compliance. The same approach is applied to zakat institutions. In the context of the establishment of a mission or vision, management will set a strategy objective, choose the strategy and align it with the objectives the zakat institution wants to achieve.

However, a problem that occur in the current OPZ is that the collection of zakat instruments is not optimal. There is a gap between the potential and actual amounts of zakat funds collected. One of the main factors that causes this is the lack of information (education) about zakat in the community, including the government and related internal zakat institutions. Therefore, it is expected that zakat institution management will also set the goal of education as a long-term target, in line with the OPZ vision and mission.

The lack of public knowledge about zakat means the community is less caring about zakat socialization, does not pay zakat, and the higher the gap with the surrounding social environment. Some understandings, such as zakat maal, professional zakat, zakat with taxes, zakat through zakat administrators (BAZNAS and LAZ), as well as the beneficiaries of zakat, are the main issues in the socialization of the general public.

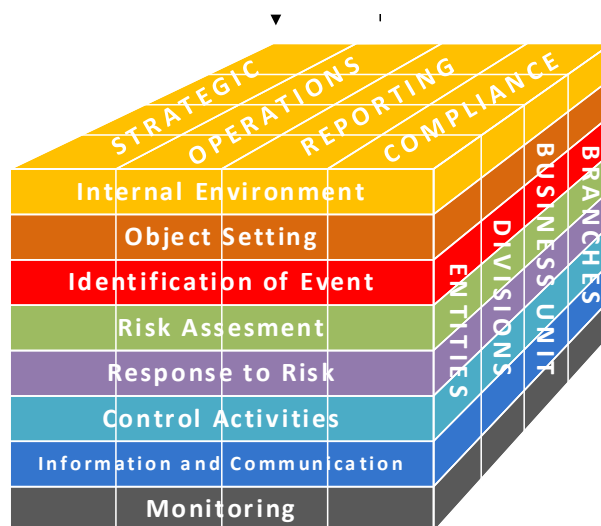


Figure 5: Framework of COSO ERM Modification

Zakat education should be undertaken jointly by various parties; for example, involving scholars and the government, not only the zakat institution itself. If zakat institutions are transparent and accountable in their management, and their human resources to manage community funds are of high quality while there is no support from the government to strengthen the rules of zakat, then the synergy of the government and zakat

managers may not coincide, and may overlap.

In this situation, the development of the COSO ERM framework by adding educational goals is very important and strategic. The purpose of education is to connect the strategic goals and objectives in the operation of zakat institutions. Zakat management is not only directed to achieve the strategic objectives, including operational, reporting and compliance ones, but also to achieve the goals of education. Therefore, the modified COSO ERM framework provides more complete and structured guidelines in order for the application of risk management in zakat institutions to remain in line and for the desired targets to be achieved.

In addition to developing organizational goals in the COSO ERM Modification framework, the author has also identified weaknesses in the use of the risk level measurement criteria. The level of risk is not only measured by two dimensions, namely likelihood (L) and impact (I). Risk with a low frequency and no impact to the catastrophe if it occurs very quickly (instantly), without or with minimal warning, will have a major impact on an organization. Therefore, the level of risk can also depend on the speed with which the risk occurs. Similarly, if the risk with a low frequency and no impact to the catastrophe, it is not necessarily the related entity has capability in good risk mitigation, so that the possibility of success is very low because the solution offered is not effective. This will also have a major impact on the entity. Therefore, the level of risk can also depend on the level of vulnerability.

Accordingly, in measuring the risk of zakat institutions, two other criteria will be added, namely the level of vulnerability (V) and the speed of onset (S) of risk. Consequently, the assessment criteria for the level of risk in this study are based on likelihood (L), impact (I), vulnerability (V) and speed of onset (S). The measurement scale of OPZ risk management is shown in Table 3.

Table 3: Likelihood Scale

Likelihood of risk		
1	Extraordinary	Will almost may certainly not happen.
2	Very rare	very rare.
3	Rare	rare.
4	Unlikely	may not occur.
5	Possible	may occur.
6	Likely	very possible.
7	Almost certain	Will almost certainly happen.

Table 4: Impact Scale

Impact of risk		
1	Insignificant	Has no impact on OPZ
2	Very minor	The impact is very low on the OPZ – minor problems can be done by routine management.
3	Minor	The impact is low - can be done by a routine management.
4	Moderate	The impact is medium – prevents the company from reaching its goals over a certain period.
5	Major	The impact is high - means the OPZ cannot reach many of its objectives over the long term.
6	Very Major	The impact is very serious - the OPZ cannot reach most of its long-term objectives.
7	Catastrophic	The impact is catastrophic - the OPZ cannot reach any of its objective in the long term, which leads to bankruptcy, death, or criminal punishment.

Table 5: Vulnerability Scale

OPZ Vulnerability		
1	Very low	OPZ has the capability for very good risk mitigation through a real step in every condition scenario: the possibility of success is very high in several extreme problems.
2	Low	OPZ has the capability for good risk mitigation; the possibility of success is high, apart from in certain extreme problems.
3	Medium	OPZ has the capability for sufficient mitigation risk; the possibility of success is medium, because several solutions are effective, while others are not.
4	High	OPZ has the capability for below average risk mitigation; the possibility of success is low because various solutions are yet to be effective.
5	Very high	OPZ has the capability for poor mitigation risk and has no real step for every condition scenario; the possibility of success is low because the solutions are not effective.

Table 6: Speed of Onset Scale

Speed of Onset of Risk		
1	Very low	Very slow to happen; occurs over a year or more.
2	Low	happens over a few months.
3	Medium	happens within a month.
4	High	Happens in a few days or weeks.
5	Very high	Happens very quickly, without warning

DEVELOPING RISK HEAT MAP FOR ZAKAT INSTITUTIONS

Measuring the risk of zakat institutions is different from measuring that of commercial and other social institutions. Because several criteria and measuring scales are used to identify risks, mapping of the risk level is needed, which is known as a heat map. The COSO ERM modification heat map is a graphical representation of various risk data contained in a matrix represented by meaningful color levels. The COSO ERM heat map modifications are described by a 2D view giving various information on the types of risk faced by zakat institutions. The following risk mapping using a heat map is based on four risk area categories.

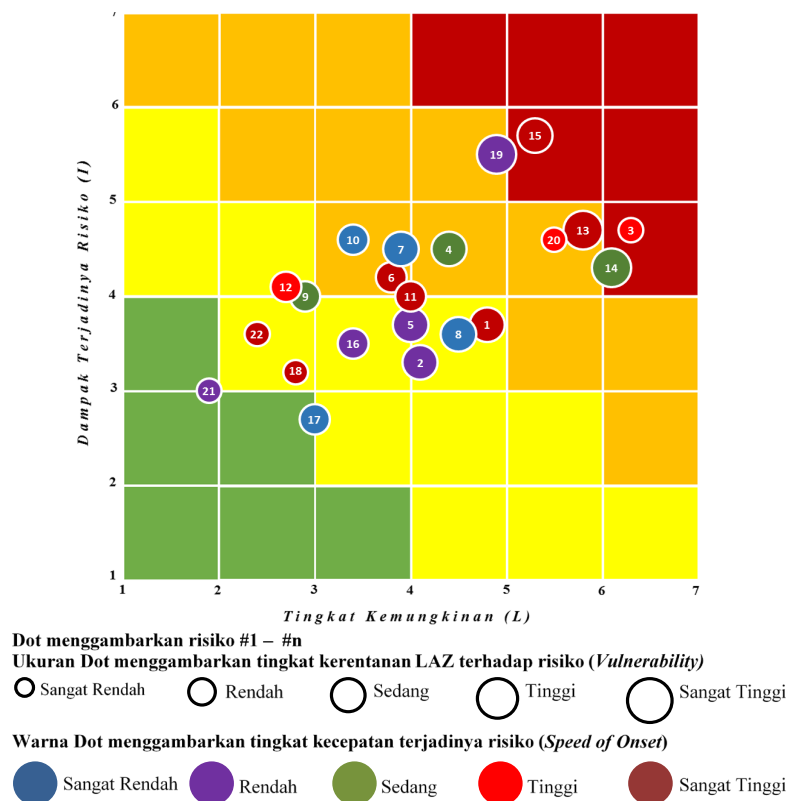


Figure 6: Heatmap of COSO ERM Modification for Zakat Institution

Based on the tendency of the risk to occur and the impact caused, the COSO ERM modification heat map is divided into four levels of risk acceptance. Starting from a very high level to a very low level, four colors are used to make it easier to distinguish the risk areas. Each color shows a separate risk: red for extreme risk areas; orange for high risk areas; yellow for medium risk areas; and green for low risk areas. Table 7 shows the four levels of risk.

Table 7: Clarification of Level risk to Heatmap ERM COSO Modification

Impact of risk	
1	Extreme risk. Risk that cannot be tolerated, so action needs to be taken by senior management.
2	High risk. Risk that should be avoided, so attention needs to be paid by senior management.
3	Moderate risk. Risk that can be accepted, but must be managed, so senior management needs to take responsibility.
4	Low risk. Risk that need not be considered because it has a small impact, so routine procedures can be followed.

Overall, the COSO ERM heat map modifications, both the frequency scale of the risk and the impact of risk, are formed on a scale of seven and divided into four levels of risk, represented by different colors.

RISK MITIGATION PROCESS IN ZAKAT INSTITUTIONS

The next step in the risk management process is planning for mitigation strategies for measured risks. Such strategies are actions in the form of techniques, processes and procedures to reduce the impact of risks that might arise in the activities of an entity. In minimizing the losses caused by risk, management must develop a risk mitigation strategy plan. In general, risk mitigation in zakat institutions can be divided into five levels of risk response, from a simple response to one that requires complex systems.

The five responses involve: (1) Eliminating the risk to zakat institutions by removing certain hazards from related activities, so that these risks are no longer a threat to the institutions; (2) Not carrying out activities that allow risk to occur, so that zakat institutions are more careful in managing zakat funds; (3) Reducing the possibility of the risk and the impact of the damage generated by activities in the zakat institution by transferring the risks that arise to other parties; (4) Reducing the possibility of risk and its impact by dividing it between zakat institutions and other external parties; and (5) Accepting these risks

4



ZAKAT INSTITUTION RISK MANAGEMENT

This chapter discusses the results of the risk measurement in the Zakat Administration. In order to ease the application of risk management in zakat institutions, for each type of institutional risk a risk heat map is used. Discussion of each heat map and the zakat institutions' risk priorities is made in the following sections; for further details, see the appendices.

STRATEGIC RISK

Zakat institutions, as non-profit organizations, have always been faced by various problems from their inception. They continue to exist and operate as zakat administration agencies, in the same way as commercial organizations. For this reason, a zakat institution requires a strategic formulation that is well developed and can be applied appropriately for it to be able to survive.

Strategic risk is defined as risk that is separate from other risks. According to the Bank Indonesia Regulation (PBI) number 13/23 / PBI / 2011, it is a risk resulting from inaccuracy in taking and/or implementing a strategic decision and failure to anticipate changes taking place in the business environment. No matter how well operational risk management is performed, if an institution is not able to identify its strategic risks, it is prone to failure. Therefore, there is more emphasis on strategic risk management by top level management, while operational risk can be managed by technical managers who are familiar with the day-to-day operational activities in the field.

Strategic risk in zakat institutions is risk associated with their long term decisions, which lie in the control of the top managers. Strategic risk is comprehensive, because it has an impact on all zakat institution policies. Such risk generally arises because the zakat institution may (i) have established a strategy that is not in line with its vision and mission; (ii) have implemented an uncomprehensive strategy; (iii) have made inappropriate decisions; (iv) lack responsiveness to external changes; or (v) face a mismatch of strategic plans between different levels in the organization. In addition, strategic risks also arise due to a failure to anticipate technological changes, macroeconomic conditions, competition between organizations or policy changes by related authorities. The impact of not being able to anticipate this strategic risk can be seen by the failure of zakat institutions to achieve their predetermined business targets.

Vision and Mission Risk

A imprecise vision and mission of a zakat institution has fundamental impacts on the occurrence of strategic risk. Vision and mission risk is a condition experienced by zakat institutions resulting from them not being able to achieve their intended vision and mission; this can occur due to their failure to carry out such targets, and the absence of measuring instruments for their achievement. It also can be caused by the community not fully acknowledging the zakat institution and its activities to achieve its vision and mission.

The failure of a zakat institution to achieve its vision and mission can cause it to operate without a definite foundation.

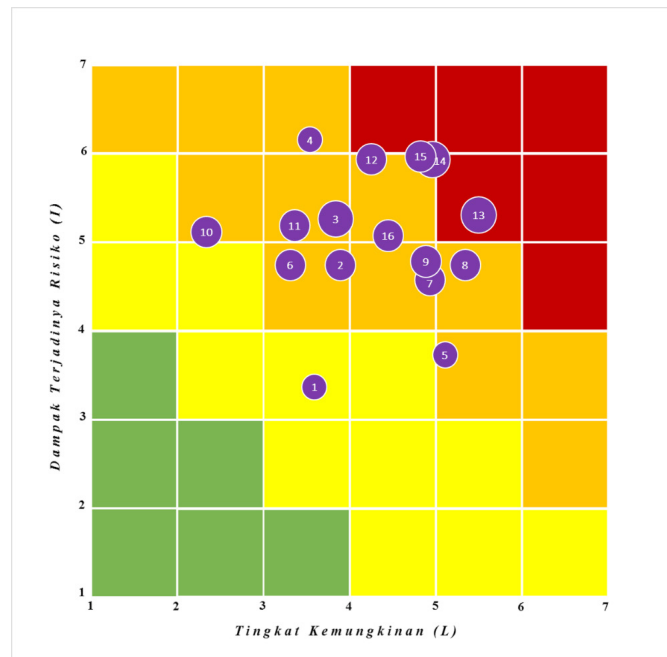


Figure 7: Heatmap of Vision and Mission Risk

There are 16 risks included in the category of Vision and Mission Risks. Using the descriptive analysis made by the researchers on zakat institutions, the assessment of vision and mission risks is presented in Table 8.

Table 8: Prioritization of Vision and Mission Risk, Impacts and its Mitigations

Code	Identification of Vision and Mission Risk	L	I	V	S	Impacts	Mitigations
14	The absence of OPZ (Zakat Management Organization) 'measures of health'.	5.0	5.9	4	2	(1) The OPZ is not aware of its health condition. (2) The OPZ fails to perform well. (3) This does a disservice to the community.	1) Determine OPZ health measurement standards. (2) Work with other OPZs to compile standards of health.

Code	Identification of Vision and Mission Risk	L	I	V	S	Impacts	Mitigations
13	The community lacks knowledge about OPZ functions and what they do to achieve their vision and mission.	5.5	5.3	4	2	(1) People are less concerned about OPZs. (2) This reduces public trust; and (3) It inhibits the OPZ development.	(1) Conduct widespread and effective socialization of the public. (2) Develop clear programs and conduct feedback surveys.
3	An OPZ's vision and mission are not clear.	3.8	5.3	4	2	(1) Confuses zakat administrators and those at management level. (2) The objectives and work programs become less clear.	(1) Have control over the formulation of OPZ visions and missions. (2) Review and modify the vision and mission. (3) Review and verify the vision and mission with OPZ stakeholders.
15	The OPZ is not a zakat institution that is both professional and trusted.	4.8	6	3	2	(1) The OPZ is not a community preference. (2) Reduced public trust.	(1) Implement conducive management. (2) Realize Gaad Amil Governance (GAG). (3) Improve defined standards of service quality.
12	Zakat administrators either do not understand or appreciate the vision and mission, or only partly do so.	4.3	5.9	3	2	(1) Low dedication from zakat administrators. (2) This causes resource deficiencies in the long run.	(1) Specify the vision and mission in zakat administrators' Key Performance Indicators (KPIs) before drafting the RKAT. (2) Train zakat administrators regularly and systematically.

Objective Risk

The inexact formulation of the objectives of zakat institutions could potentially lead to the occurrence of strategic risks. Objective risk occurs when a zakat institution fails to achieve its targeted objectives. It could happen due to the objective itself, that

is, it is too idealistic, out of the institution's focus area, unclear, or outside the control of the zakat institution. Not only a result of the unavailability of measurement of the achievement of objectives, objective risk can also be caused by strategic objectives that are not in line with the vision and mission of the institution.

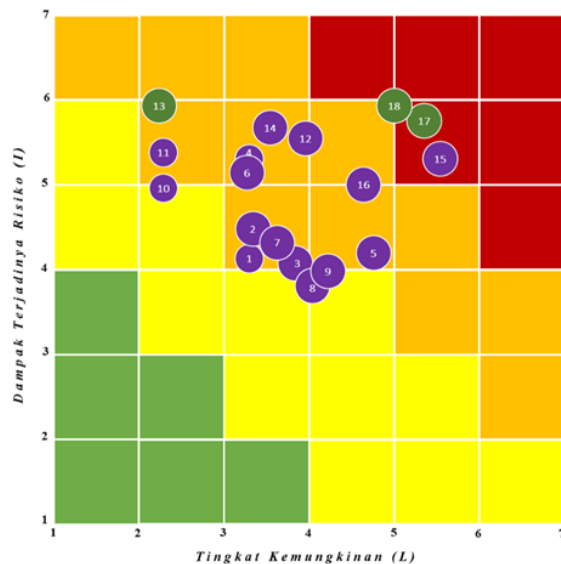


Figure 8: Heatmap of Objectives Risk

The Objective Risk category comprises 18 risks. According to the descriptive analysis made by the writers on zakat institutions, the assessment of these risks is shown in Table 9.

Table 9: Prioritization of Objectives Risk, Impacts and its Mitigations

Code	Identification of Vision and Mission Risk	L	I	V	S	Impacts	Mitigations
17	Lack of human resources in terms of quality and quantity to achieve the objectives.	6.3	5.4	3	3	(1) Hampers the accomplishment of objectives. (2) Reduces OPZ credibility. (3) Inhibits OPZ growth in the short to long run.	(1) Construct requirement guidelines. (2) Improve zakat administrator competency. (3) Use performance appraisal to measure zakat administrator' performance.
18	Those at management level are working ineffectively to achieve the objectives.	5.0	5.9	3	3	(1) Hampers the accomplishment of objectives. (2) Reduces OPZ credibility. (3) Is ineffective and inefficient. (4) Potential for fraud.	(1) Conduct meetings and evaluations regularly, level by level. (2) Construct an evaluation mechanism for the management level of an OPZ institution.

13	The management board does not understand the objectives, or does so only partly.	2.2	5.9	3	3	(1) Direction lost. (2) The OPZ can change fundamentally. (3) Inefficiency. (4) Low dedication amongst leaders.	(1) Perform a Fit and Proper Test (PFT) on leaders. (2) Make personal assessment of potential leaders. (3) Conduct training for organizational leaders.
16	Lack of facilities and infrastructure to reach the goals.	4.6	5.0	3	3	(1) Decline the performance in order to increasing public trust. (2) Inhibits OPZ growth.	(1) Improve program creativity. (2) Set budget priorities according to program priorities. (3) Program innovation should be in line with budget contingencies.
15	The public do not understand what the OPZ is and what it is doing to achieve its goals.	5.5	5.3	3	3	(1) The public care less about the OPZ (2) Reduction in public trust.	(1) Approach and communicate with the public. (2) Perform effective socialization with the public. (3) Utilize social media such as websites and applications.

Reputation Risk

If the zakat institution is unable to show its ability to cope with all the problems at the strategic level, it must be aware of the risk that follows strategic risk, namely reputation risk. The damaged reputation of a zakat institution could be an indicator of the occurrence of strategic risk. Reputation risk will not only generate losses, but also can damage the reputation of zakat institutions in general. Subsequently, this risk can potentially lead to the increased risk of losing obliged zakat payers (muzaki) and lawful zakat recipients (mustahik), as well as the risk to collecting zakat funds. ٢٠

Reputation risk is the risk of potential losses for zakat institutions caused by negative perceptions, which can affect its ability to perform well. This risk can appear in all zakat institution activities, for example as part of its function of educating, informing and counseling the community, as well as that of collecting and utilizing zakat funds for Mustahik, or other kind of activities that can damage its reputation in the eye of the public. If the zakat institution realizes that it takes years to build a good reputation, but only minutes to destroy it, then it will certainly be more concerned about such risk.

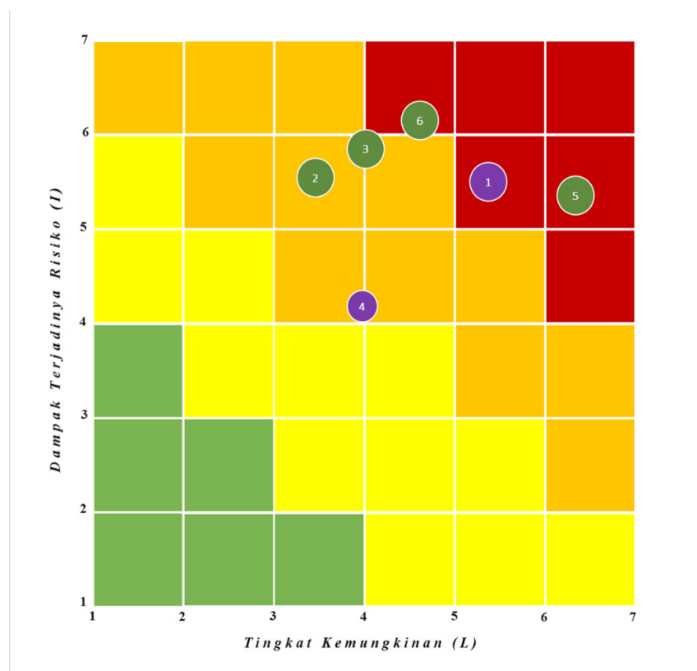


Figure 9: Heatmap of Reputation Risk

Reputation risk consists of six types of risk. Based on the descriptive analysis and the questionnaires conducted by the researchers, assessment of these six risks is presented in Table 10.

Tabel 10. Prioritization of Reputation Risk, Its Impacts and Mitigations

	Identification of Reputation Risk	L	I	V	S	Impacts	Mitigations
5	Risks coming from the OPZ adjusting to new regulations (in legal, organizational, operational terms etc.).	6.3	5.4	3	3	(1) The OPZ needs considerable time and money to adjust its activities corresponding to the provisions. (2) The OPZ cannot continue its operations. (3) Reduction in public trust.	(1) Perform licensing at the international level (as an NGO from the United Nation); at the national level (hold a permit as LAZ-NAS); and at the provincial level (have permission from the provincial BAZNAS), as well as performing PPUB (for collecting infaq boxes, etc.); (2) Modify organizational management following the mandated regulations

1	The OPZ is not carrying out all its functions (such as educating and collecting, etc.) optimally.	5.4	5.5	3	2	<p>(1) Low OPZ performance.</p> <p>(2) Decline in credibility and public trust in the OPZ.</p> <p>(3) The OPZ may shut down in the medium to long run.</p>	<p>(1) Prepare educating, informing and consulting service strategies (both face-to-face, as well as through media and IT).</p> <p>(2) Conduct regular evaluation of institution performance; take corrective actions and also preventive measures.</p> <p>(3) Develop partnership cooperation.</p>
6	The OPZ does not have a good reputation in the eye of the public.	4.6	6.2	3	3	<p>(1) There is a chance that the community has no knowledge of the existence of the OPZ, its programs and its beneficiaries.</p> <p>(2) This has an impact on zakat validity and the possibility of reduced blessings.</p>	<p>(1) The OPZ should be committed; implement good organizational governance; develop programs that fulfil the needs of the community; have an excellent service and report system, as well as effective socialization.</p> <p>(2) Strengthen the aspects of compliance, institutional positioning, services, and program innovations.</p>
3	The OPZ has not been optimal in managing all the processes corresponding to prevailing regulations, good governance and Sharia principles	4.0	5.9	3	3	<p>(1) There could be a risk of fraudsters making illicit actions in zakat collection.</p> <p>(2) The OPZ has a low compliance rate.</p>	<p>(1) Establish a Compliance Division as a preventive measure to comply with the provisions of the regulations and Sharia principles.</p> <p>(2) Develop compliance modules.</p> <p>(3) Design an audit of compliance and develop a socialization mechanism.</p>
2	The OPZ has not optimally utilized zakat funds for its potential lawful recipients.	3.5	5.5	3	3	<p>(1) The potential lawful recipients may feel they have not received the benefits of zakat appropriately.</p> <p>(2) The potential lawful recipients who have not been able to empower themselves will continue to be financed and assisted with zakat funds, although these will be limited</p>	<p>(1) Implement a comprehensive, measurable, sustainable Zakat, Infaq, and Sadaqah (ZIS) fund utilization program.</p> <p>(2) Conduct impact assessment of each program.</p> <p>(3) Make regular evaluation of institution performance and ensure that corrective and preventive actions are taken corresponding to the evaluation.</p> <p>(4) Develop partnership cooperation</p>

CORPORATIZATION RISK

The corporatization risk in zakat institutions is the risk of misusing the zakat, infaq or sadaqah (ZIS) funds by management or the owners of institutions to seek profit. This risk usually arises because zakat institutions want to establish subsidiaries that are engaged in the commercial sector or are not run in accordance with Sharia principles. This therefore causes a potential conflict of interest risk.

The capitalist business process is not suitable to be applied to the zakat management industry, since the funds that are managed by zakat institutions have been collected from communities on the understanding that the institutions will channel them to those who need them.

The shift in the orientation of zakat institutions towards wanting to make a profit, which is the general aim of commercial institutions, means they are no different from such institutions. For this purpose, a practice of cooperation amongst zakat institutions (ta'awun), focused on areas of zakat, and with a spirit of co-opetition rather than pure competition, is the hope of many parties with regard to zakat institutions in Indonesia.

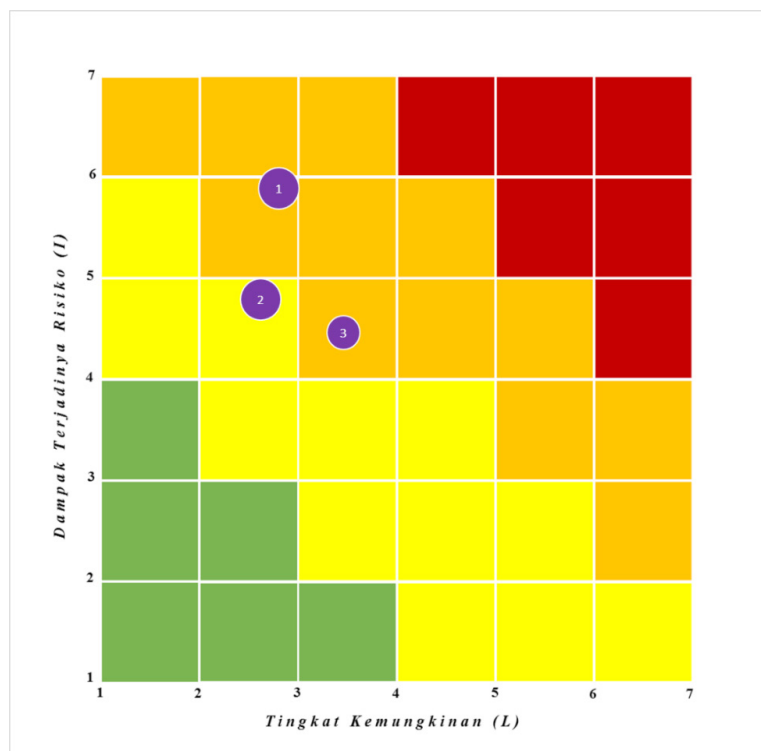


Figure 10: Heatmap of Corporatization Risk

There are three types of corporatization risk. Based on the descriptive analysis and the questionnaires conducted by the researchers, an assessment of these risks is presented

in Table 11.

Tabel 11. Prioritization of Corporatization Risk, Its Impacts and Mitigations

Code	Identification of Corporatization Risk	L	I	V	S	Impacts	Mitigations
1	Misuse of zakat, Infaq and Sadaqah (ZIS) funds for the establishment of companies that are not in accordance with Sharia principles.	2.8	5.9	3	2	(1) Violation of Sharia compliance and regulations. (2) Damage to the OPZ credibility.	Create specific institutional and legal policies governing the expansion of institutions' subsidiaries, which are fair and proportional.
3	There could be conflicts of interest within OPZs when establishing social and/or commercial subsidiaries.	3.5	4.5	2	2	Conflicts of interest can trigger the segregation of subsidiaries, or even the merger of some OPZs.	Develop solid internal audits and third party supervision.
2	The existence of OPZ expansion to establish subsidiaries related to OPZ activities.	2.6	4.8	3	2	Risk of loss if a subsidiary (PT) suffers a loss, which will subsequently reduce the unrestricted funds – the zakat administrator funds	Develop customer and public voice channels aimed at socially controlling all the zakat fund management undertaken by the institutions.

EDUCATION RISK

Education risk is a risk caused by the collection of zakat which is not at an optimum level. One of the main factors involved is the lack of education about zakat in the community, including the government and even the relevant zakat institutions themselves. This type of risk is divided into two parts, namely external education risk and internal education risk.

External Education Risk

External education risk arises from low public awareness of the importance of paying into zakat funds. Education and socialization about the importance of managing zakat institutionally need to be supported by various parties.

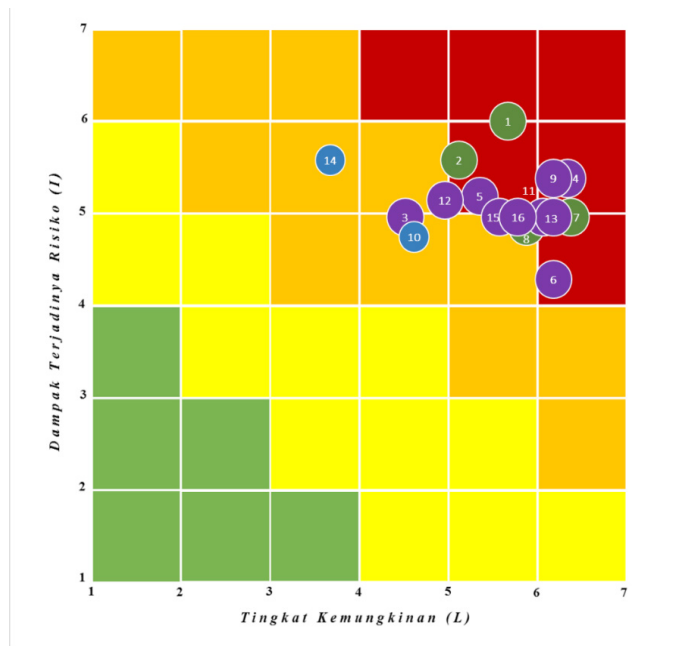


Figure 11: Heatmap of External Education Risk

16 risks are included in the External Education Risk category. Based on the descriptive analysis and the questionnaires conducted by the researchers, assessment of these six risks is presented in Table 12.

Tabel 12. Prioritization of External Education Risk, Its Impacts and Mitigations

Code	Identification of External Education Risk	L	I	V	S	Impacts	Mitigations
4	The community does not understand the importance of paying zakat through OPZs.	6.3	5.4	3	2	(1) The OPZ is performing the zakat management process less than optimally.(2) This inhibits the development of the OPZ.	(1) Conduct extensive, periodic and structured socializations. (2) Cooperate with various universities in order to socialize zakat, Infaq, Sadaqah, and Waqf (ZISWAF).
1	Many people still do not understand about zakat payments.	5.7	6.0	3	3	Results in low public awareness of zakat and zakat payment.	(1) Conduct zakat education nationally, involving all stakeholders. (2) Prepare various sources of information to show to the public; for example, scientific works and books in the area of zakat, program documentation, program reports, and program info-graphics.

Code	Identification of External Education Risk	L	I	V	S	Impacts	Mitigations
9	Educational programs created by the government have not been well-structured.	6.2	5.4	3	2	(1) Government education programs are ineffective and difficult to complete. (2) People tend to be passive with regard to paying zakat.	(1) Together with the related parties, the government should develop well-structured zakat education programs. (2) Create systematic planning programs and set annual targets for educating communities about ZIS awareness.
7	The government is not educating the public about zakat.	6.4	5.0	3	3	Zakat education funds are managed independently by OPZs. (2) Education about zakat in elementary school is relatively low.	(1) The government should have its own program for zakat socialization. (2) Cooperate with the mass media and education-related parties.
13	The government has not allocated a sufficient budget for zakat education and socialization in order to educate the community.	6.2	5.0	3	2	Government cooperation with zakat institutions does not run in parallel, at times overlapping and colliding.	(1) Use internal OPZ funds for socialization costs. (2) Cooperate with business, media and education sectors.

Internal Education Risk

Concurrently, internal education risk arises due to the lack of internal knowledge at various levels of zakat institutions of the management process of zakat. Internal education is achieved by building cohesive understanding in all divisions of the zakat institution, explaining how potential losses will be made if institutions have no clear insight of the management process, and carrying out knowledge sharing activities, in which all levels in the zakat institution can share their knowledge and experience regarding the management process.

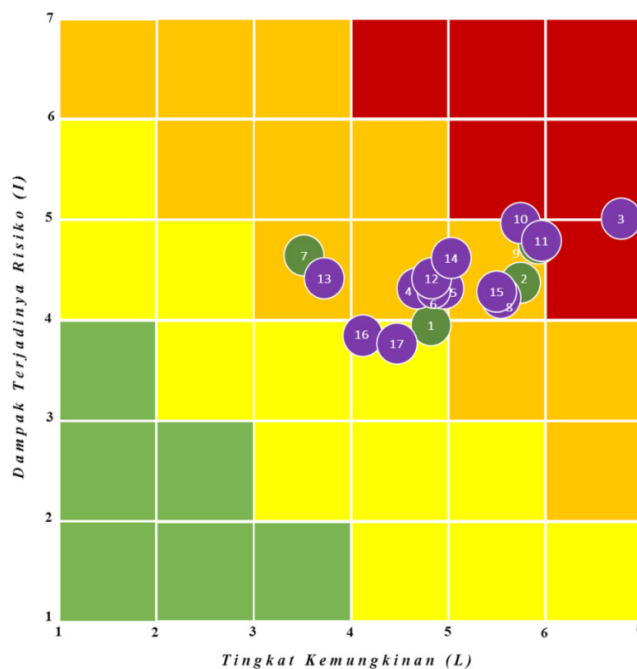


Figure 12: Heatmap of Internal Education Risk

17 risks are included in this category. According to the descriptive analysis and the questionnaires conducted by the researchers, assessment of Internal Education Risk is presented in Table 13.

Tabel 13. Prioritization of Internal Education Risk, Its Impacts and Mitigations

Code	Identification of Internal Education Risk	L	I	V	S	Impacts	Mitigations
3	OPZs expect the government to play a significant role in zakat education.	6.8	5.0	3	2	Low public awareness about zakat and zakat payment.	<p>(1) Together with related parties, encourage the government to play an active educational role.</p> <p>(2) The government should have a specific program on socializing zakat payment.</p> <p>(3) Collaborate with active players in zakat, mass media and educators.</p>

Code	Identification of Internal Education Risk	L	I	V	S	Impacts	Mitigations
11	OPZs lack resources and funds for zakat education.	6.0	4.8	3	2	Low community understanding of zakat and zakat payment.	(1) Seek other sources of funds, such as sponsorship and joint communication activities. (2) Implement appropriate methods, facilities and partnerships, and make evaluation based on feedback.
10	OPZs lack financial resources to introduce themselves to the wider community.	5.8	5.0	3	2	OPZs work less than optimally in the zakat management process.	(1) Develop effective communication strategies. (2) Establish synergies with other parties.(3) Establish a Person-in-Charge (PIC) to manage the marketing, and at the same time allocate a sufficient budget.
9	The OPZ is not well known by the public.	5.9	4.8	3	3	The OPZ has not worked optimally on the zakat management process.	(1) Run communication programs and appoint volunteers as spokespeople in the community. (2) Create a regular agenda of socialization activities every week or month.
2	Most OPZs sell products instead of educating people about zakat.	5.8	4.4	3	3	People will channel their zakat to potential mustahik themselves.	(1) Balance OPZ education programs with funding programs. (2) Prepare the themes of zakat education and focus on increasing public understanding of the obligation of zakat and its benefits, not merely targeting the selling of products.

OPERATIONAL RISK

Collection Funds Risk

Operational risk is the risk caused by the failure of institutions' internal processes, as well as the existence of human and system errors. Zakat fund collection risk arises from the legality of funds according to Sharia principles (halal). They include wealth that is not halal; for example, as a result of corruption, gains from financial interests, profits from conventional shares, mixed assets with non-halal income, counterfeit money, and wealth that is not private. If joint wealth is used, the calculation of zakat based on nisab (the minimum amount of wealth before a Muslim become eligible to pay zakat) and haul (the completion period for a zakat asset) will be misleading. This risk also happens when the forecast of zakat potential and its collection plans are too optimistic and tend to be inaccurate.

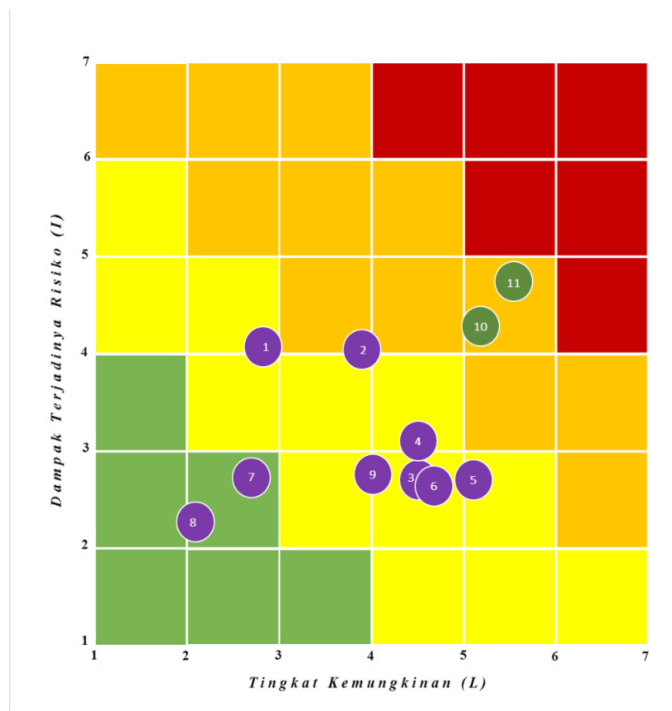


Figure 13: Heatmap of Collection Funds Risk

11 risks are included in the category of Zakat Fund Collection Risk. According to the descriptive analysis and the questionnaires conducted by the authors, assessment of this type of risk is shown in Table 14.

Table 14: Prioritization of Collection Funds Risk, Its Impacts and Mitigations

Code	Risk of Collection Fund	L	I	V	S	Impacts	Mitigations
11	The zakat collection plans are too optimistic.	5.5	4.7	2	3	(1) The realization of zakat collection is not as targeted. (2) This influences significantly implementation of programs in the field.	(1) Make a disclaimer on all confirmation forms to the donors, explaining that the OPZ does not receive zakat funds originating from crime with the purpose of money laundering, or other restrictions that support the provisions of Sharia laws. (2) Run Sharia financial check-up training, which should be attended regularly by both the obliged zakat payers and the potential obliged zakat payers. (3) Establish a Standard of Operations Procedures (SOP) for zakat payments; strengthen the compliance units; formulate a corridor of compliance; socialization, implementation and audit compliance.
10	Projections of zakat potential are too optimistic and/or inaccurate.	5.2	4.3	2	3	(1) Resets the budget, which can affect the level of satisfaction of the potential lawful recipients. (2) Affects the program indicators of success.	
2	The zakat assets come from non-halal income.	3.9	4.0	2	2	(1) OPZ zakat funds are mixed with non-halal funds. (2) They violate Sharia principles. (3) Zakat assets are unlawful.	
5	Dedicated assets are mixed and come from non-legal sources (corruption, usury, etc.).	5.1	2.7	2	2	(1) OPZ zakat funds are mixed with non-legal funds. (2) They violate Sharia. (3) Zakat assets become invalid.	
4	The zakat assets come from Conventional stock profits.	4.5	3.1	2	2	(1) OPZ zakat funds are mixed with non-halal funds. (2) They violate Sharia laws. (3) Zakat assets become unlawful.	

Distribution Funds Risk

Zakat distribution fund risk derives from misusing the distribution of zakat funds. This risk emerges if the funds are used for the interests of individuals or groups of people, are not disbursed within a year, are held in a bank, or are not channeled to the potential lawful recipients.

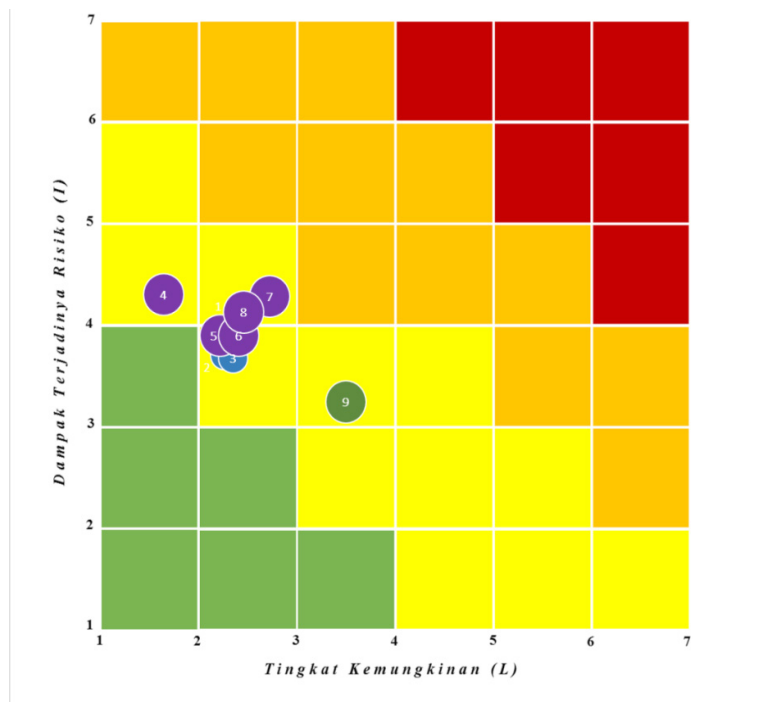


Figure 14: Heatmap of Distribution Funds Risk

There are nine risks in this category. Based on the descriptive analysis and the questionnaire results, the assessment of distribution fund risk is shown in Table 15.

Table 15: Prioritization of Distribution Funds Risk, Its Impacts and Mitigations

Code	Identification of Distribution Funds Risk	L	I	V	S	Impacts	Mitigations
7	Zakat funds are distributed unfairly to the lawful recipients area	2.7	4.3	2	2	(1) The distribution of zakat is less than effective. (2) There could be risk in terms of justice with regard to each of the legitimate recipient's rights.	(1) Map the potential area of distribution based on the poverty rate. (2) Cooperate with local institutions. (3) Hold management review meetings.(4) Conduct a thorough survey on prospective beneficiaries so that they are continuously in accordance with the categorization of legitimate recipients.

9	The amounts intended for lawful recipients are relatively small.	3.5	3.2	2	3	(1) Lawful recipients' basic needs have not been fulfilled. (2) Lowering of OPZ reputation.	(1) Apply an SOP to the fund distribution, corresponding to overall recipient conditions, especially their financial state. (2) Evaluate the performance of the distribution program, the quality of services to the lawful recipients, and the impact of the programs.
8	A relatively long time is needed for the zakat fund to reach the lawful recipients.	2.5	4.1	2	2	(1) There could be risk in terms of justice with regard to each of the legitimate recipient's rights. (2) Lowering of OPZ reputation.	(1) Apply the SOP to fund distribution. (2) Establish preventive and corrective systems. (3) Plan effective and efficient business processes.
1	Zakat funds used for the interests of individuals or particular groups of people.	2.4	4.0	1	2	(1) Invalid distribution according to zakat beneficiary provisions. (2) Violation of Sharia laws.	(1) Establish policies regarding the limitations and utilization provisions of program funds. (2) Apply compliance and internal audit systems. (3) Apply the SOP to fund distribution. (4) Prepare periodic financial reports.
6	Zakat funds are distributed unfairly to lawful recipients.	2.4	3.9	2	2	(1) Distribution of zakat funds is less than effective. (2) There could be risk in terms of justice with regard to each of the legitimate recipient's rights.	(1) Apply the SOP to fund distribution, corresponding to overall recipient conditions. (2) Develop an annual management policy. (3) Conduct a thorough survey on prospective beneficiaries so that they are continuously in accordance with the categorization of legitimate recipients.

Productive Funds Risk

Productive fund risk emerges when there are irregularities in the distribution of zakat funds for productive purpose. This could be caused by: (i) revolving funds for productive purposes are still recorded as receivables (as in PSAK 109 para.31); (ii) there is no

stated provision when zakat funds are considered to have been channeled or not; (iii) the utilization of zakat funds for productive purposes is higher than for consumption purposes, while the target for consumption purpose is yet to be met; (iv) the amount of zakat funds for productive purposes is considerably low; (v) the revolving funds are used for more than a year; and (vi) the operations run less effective as mustahik are not equipped with the required skills.

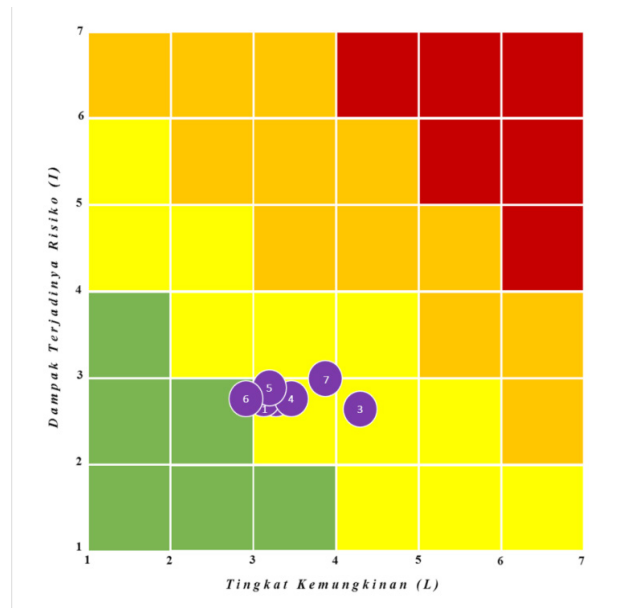


Figure 15: Heatmap of Productive Funds Risk

Productive Fund Risk comprises seven risks. According to the descriptive analysis and the results from the questionnaires conducted by the researchers, the assessment of this kind of risk is presented in Table 16.

Table 16: Prioritization of Productive Funds Risk, Its Impacts and Mitigations

Code	Identification of Productive Funds Risk	L	I	V	S	Impacts	Mitigations
3	The amount of zakat for productive purposes per lawful recipient is too small.	4.3	2.6	2	2	(1) The lawful recipients' businesses are less developed. (2) It is not possible to cut the support given to the lawful recipients.	(1) Make a strict assessment of the amounts given to lawful recipients so that they are not too small. (2) Evaluate the performance of the distribution programs.

Code	Identification of Productive Funds Risk	L	I	V	S	Impacts	Mitigations
7	The revolving funds from zakat are less effective because the lawful recipients know that they are zakat funds.	3.9	3.0	2	2	(1) The revolving fund programs (for productive purposes) are less effective. (2) The revolving funds are not rolled smoothly and do not spin back. (3) The approach methods need to be changed.	(1) Build a concept of revolving funds that will become part of the lawful recipients' ownership assets programmed at the time they were determined. (2) Run regular training that aims to change the mindset of the lawful recipients.
4	The zakat funds are used as revolving funds for more than one year.	3.5	2.8	2	2	(1) This violates the law that the zakat funds must be channeled within one year. (2) The risk of violating the rights of the lawful recipients.	(1) A need for policies that do not burden the OPZ. (2) There should be a clear deadline regarding the refund of revolving funds. This could be done by making a Memorandum of Understanding (MoU) or an Contribution Agreement.
5	The revolving funds that come from zakat are less effective because the lawful recipients are not equipped with the required skills.	3.2	2.9	2	2	(1) The revolving fund programs (for productive purposes) are less effective. (2) The revolving funds are not rolled smoothly and do not spin back.	(1) Establish a specific division working on managing the revolving funds. (2) Provide training and business assistance for the lawful recipients, which could be done by OPZ officers or volunteers.
1	The utilization of zakat funds for productive purposes is relatively large, while the distribution target for consumption purposes is not yet met.	3.3	2.8	2	2	(1) Violates the provisions and could lower the credibility of the OPZ. (2) The allocation of Zakat, Infaq, and Sadaqah (ZIS) funds is not spread according to the basic needs of the lawful recipients.	(1) OPZs should have policies regarding fund allocation. (2) Conduct a rigorous assessment of the lawful recipients and allocate more zakat funds for consumption purposes.

Zakat Fund Collection Risk

Zakat collection risk is associated with the process of collecting zakat funds. There are several potential factors that cause this risk to happen, for example: (i) lack of control and transparency in the process of collecting zakat funds; (ii) lack of information and pub-

licity regarding zakat collection by zakat management agencies (LAZ); (iii) the number of accounts used for transferring funds causes confusion for the donors, which may lead to the absence of proof which should be received by them.

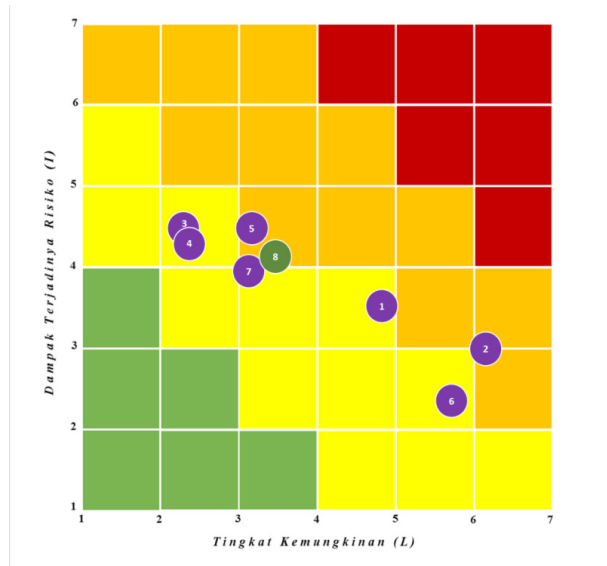


Figure 16: Heatmap of Zakat Fund Collection Risk

There are eight risks categorized in Zakat Fund Collection Risk. Based on the descriptive analysis and the questionnaire results, the assessment for these risks is shown in Table 17.

Table 17: Prioritization of Collecting Zakat Fund Risk, Its Impacts and Mitigations

Code	Identification of Zakat Fund Collection Risk	L	I	V	S	Impacts	Mitigations
11	The zakat collecting plans are too optimistic	5.5	4.7	2	3	(1) The realization of zakat collection is not as targeted. (2) Influence significantly to implementation of program in the field	(1) Add a disclaimer to all confirmation forms to donors explaining that the OPZ does not receive zakat funds originating from crime, or with the purpose of money laundering, and with other restrictions that support the provisions of Sharia laws.
10	Projections of zakat potential are too optimistic and/or inaccurate	5.2	4.3	2	3	(1) Resetting the budget which can affect the level of satisfaction of the potential lawful recipients; (2) Affecting the programs indicators of success.	

2	The zakat assets come from a non-halal income	3.9	4.0	2	2	(1) OPZ zakat funds mixed with non-halal funds; (2) Violate Sharia principles; (3) Zakat assets become unlawful	(2) Run Sharia financial check-up training, which should be attended regularly by both muzaki and potential muzaki. (3) Have an SOP for zakat payments; strengthen the compliance units; formulate the corridor of compliance; socialization, implementation and audit compliance.
5	Dedicated assets are mixed and come from non-legal results (corruption, usury, etc.)	5.1	2.7	2	2	(1) OPZ zakat funds mixed with non-legal funds; (2) Sharia violations; (3) Zakat assets become invalid	
4	The zakat assets come from conventional stock profits	4.5	3.1	2	2	(1) OPZ zakat funds mixed with non-halal funds; (2) Violate Sharia laws; (3) Zakat assets become unlawful	

Zakat Fund Management Risk

Zakat fund management risk is associated with the process of managing zakat funds. There are several conditions that could be experienced by zakat institutions in managing zakat funds, namely: (i) there is no Standard Operating Procedure (SOP) or Standard Operating Management (SOM) in managing zakat funds; (ii) high operational costs; (iii) the risk of mixing zakat funds with zakat institution assets; (iv) the lack of good practice in zakat management; and (v) zakat institutions place the funds in many banks, hence there is a possibility of zakat funds facing liquidation issues.

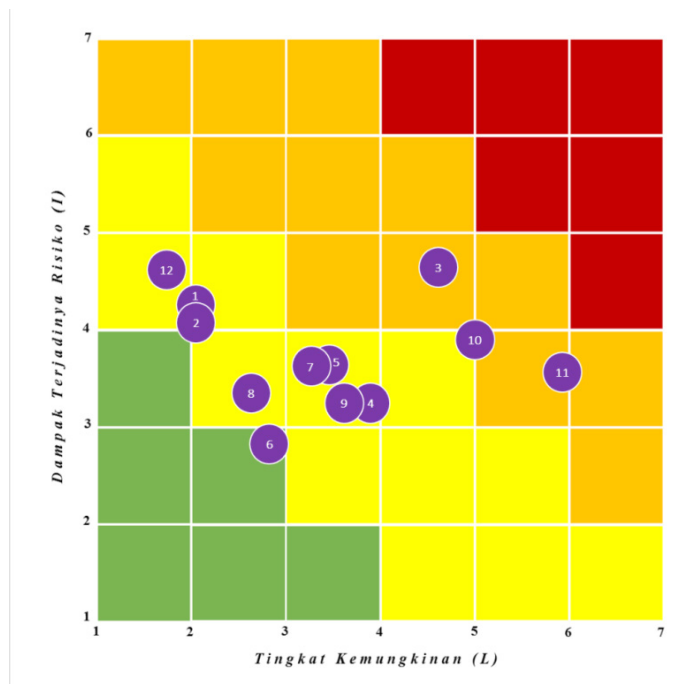


Figure 17: Heatmap of Zakat Fund Management Risk

There are 12 risks in the Zakat Fund Management Risk category. Based on the descriptive analysis and the questionnaire results, assessment of these 12 risks is presented in Table 18.

Table 18: Prioritization of Zakat Fund Management Risk, Its Impacts and Mitigations

Code	Identification of Zakat Fund Management Risk	L	I	V	S	Impacts	Mitigations
11	Zakat institutions place the funds in many banks	5.9	3.6	2	2	(1) The management process becomes complicated. (2) Increased costs and complexity. (3) Causes potential errors in calculating amil funds.	(1) Sort and select the banks to be used for collecting and saving accounts. (2) Implement a virtual account and ID number for the obliged zakat payers as payment features.
3	High OPZ operational costs	4.6	4.6	2	2	(1) Reduces the allocation of zakat funds to lawful recipients. (2) Results in inefficient management of zakat administrator funds, which can affect public trust.	(1) Manage the institution effectively and build partnerships with other parties. (2) Set up a corridor budget. (3) Create a ratio of Operational Costs to Operational Revenues (BOPO).
10	Zakat institutions use many types of fund accounts	5.0	3.9	2	2	(1) Management of zakat funds becomes complicated; (2) The emergence of pooling funds for some of these funds	(1) Use banking payment facilities such as virtual accounts
4	Zakat institutions use conventional banks in their operations	3.9	3.2	2	2	(1) That is a deviation from Sharia law (2) The risk of receiving non-halal funds and violating Sharia principles	(1) Do not use conventional banks for pooling funds accounts; (2) Have management policies; (3) Perform a corridor of compliance by Sharia Advisory Council (DPS)'s OPZ;
5	Zakat funds are held in banks in order to gain profits	3.5	3.6	2	2	(1) That is a deviation from Sharia law (2) A possible delay of transferring the lawful recipients rights	(4) Sort and select banks that will be used for collecting and saving accounts

Management of Zakat Fund Distribution Risk

Management of zakat fund distribution risk is associated with the process of zakat institutions channeling their zakat funds. There are several potential factors involved with this risk, for example: (i) Overlapping distribution of zakat funds with other OPZs; (ii) distribution of zakat funds to people outside the category of legitimate recipients (asnaf); (iii) delays in distributing funds to the lawful recipients; (iv) uneven fund allocations; (v) errors in the distribution process; and (vi) the lack of facilities necessary for the distribution process.

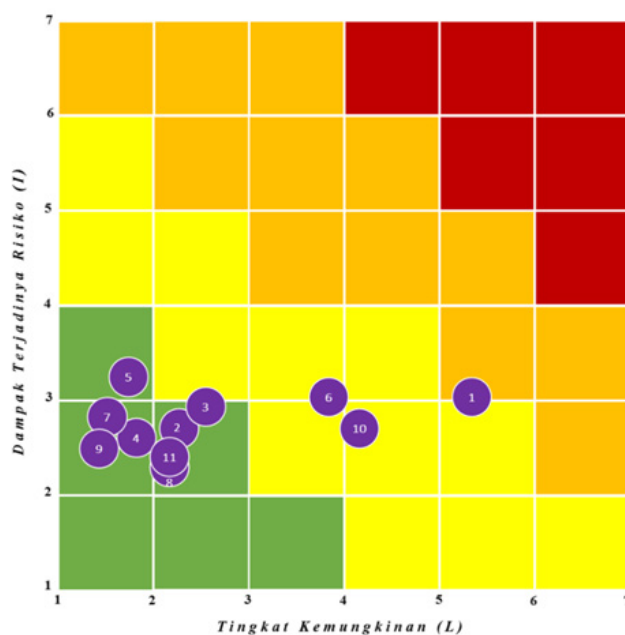


Figure 18: Heatmap of Management of Zakat Fund Distribution Risk

There are 11 risks included in the category of Management of Zakat Fund Distribution Risk. According to the descriptive analysis and the questionnaire results, the assessment of these 11 risks is shown in Table 19.

Table 19: Prioritization of Management of Zakat Fund Distribution Risk, Its Impacts and Mitigations

Code	Identification of Risk of Distribution Management	L	I	V	S	Impacts	Mitigations
1	Overlapping distribution of zakat funds with other OPZs	5.3	3.0	2	2	(1) An injustice occurs in the distribution of zakat; (2) Inefficiency of fund allocation; (3) Accountability and Transparency targets are not met	(1) Conduct a study on the worthiness of the program area; (2) Synergize with other OPZs in the distribution program; (3) Establish the lawful recipients or beneficiaries database system; (4) Create an integrated distribution database system;
6	Zakat distribution is uneven	3.8	3.0	2	2	(1) The distribution of zakat funds is less effective; (2) The zakat funds are unfairly allocated and distributed according to the rights of legitimate recipients	(5) Set up a joint website as a place to inform public about zakat funds distributions on each region; (6) Conduct distribution assessments and build partnership links between zakat institutions in the area; (7) Map the recipients lawful recipients based on their locations
10	Lack of coordination between OPZs in the distribution process of zakat	4.2	2.7	2	2	(1) there is a chance of overlapping distribution; (2) The distribution of zakat funds becomes less effective	(1) Work with other OPZs through partnerships or zakat forums. (2) Create an integrated distribution database system. (3) Set up a joint website as a place to inform the public about zakat fund distribution in each region.
3	Delays on distributing zakat funds to the mustahik	2.6	2.9	2	2	(1) Delay in distributing the rights of the mustahik; (2) The mustahik are not able fulfill their basic needs	(1) Apply the Standard Operating Procedure (SOP) to distribution process; (2) Evaluate the performance of the distribution programs
5	Zakat funds are kept for too long, and not distributed immediately	1.7	3.2	2	2	(1) Ignores the rights of mustahik; (2) The mustahik are not able fulfill their basic needs	(1) Develop monitoring and reporting systems that are measurable and structured. (2) Conduct socialization, implementation and compliance audits.

Network Infrastructure/IT Risk

Network Infrastructure/IT risk occurs when the technology systems used by zakat institutions do not work effectively in supporting current and future needs. The risks included in this category are: (i) the IT systems are disabled or even damaged; (ii) the absence of IT systems that adequately support the work of institutions; (iii) the unavailability of a comprehensive obliged zakat payer database; (iv) no flexibility in payment channels with the use of up-to-date technology (such as e-banking, SMS-banking, phone apps, post offices); and (v) the quality of the networks and technology supporting the data is poor.

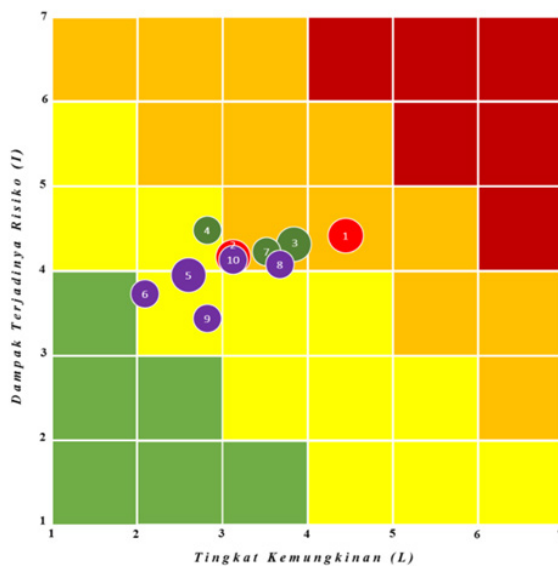


Figure 19: Heatmap of Network Infrastructure/IT Risk

IT risk comprises ten types of risk. Based on the descriptive analysis and the questionnaire results, assessment of the ten risks is shown in Table 20.

Table 20: Prioritization of Network Infrastructure/IT Risk, Its Impacts and Mitigations

Code	Identification of Network Infrastructure/IT Risk	L	I	V	S	Impacts	Mitigations
1	The IT systems are disabled or even damaged	4.5	4.4	3	4	(1) Loss of muzaki, mustahik or OPZ financial report data. (2) The information does not reach the beneficiaries.	(1) Perform a regular system backup and procure the backup servers; (2) Create data backup centers and frequently maintain the IT facilities

3	The absence of a standard IT system that supports the work of zakat institutions	3.8	4.3	3	3	<p>(1) Delay in the submission of financial information.</p> <p>(2) The management of zakat funds by OPZs is not effective.</p>	<p>(1) Support the IT team better in terms of human resources and the infrastructure.</p> <p>(2) Design a Standard Operating Procedure (SOP) for services based on IT.</p> <p>(3) Implement an audit of IT systems.</p>
8	The quality of networks is poor or the technology is very old.	3.7	4.1	2	2	<p>(1) OPZ operations are hampered.</p> <p>(2) There could be risk to the data and information managing process.</p>	<p>(1) Cooperate with third parties who have adequate network facilities.</p> <p>(2) Have a standard for selecting vendors in order to strengthen the necessary networks and applications.</p> <p>(3) Perform regular checks and evaluate output.</p>
7	Underperforming operational management, networks, and database systems.	3.5	4.2	2	3	<p>(1) There is a risk of OPZs manipulating the data.</p> <p>(2) OPZ operations are hampered.</p>	<p>(1) Create a specific team to manage network issues.</p> <p>(2) Design a technology blueprint for systems and infrastructure.</p> <p>(3) Design a Standard Operating Procedure (SOP) for services based on IT.</p>
2	Data loss due to computer viruses	3.1	4.2	3	4	<p>(1) The management of zakat funds is hampered.</p> <p>(2) There is the potential of risk to database safety for the purpose of accountability and transparency.</p>	<p>(1) Perform regular backup of the system.</p> <p>(2) Design a Standard Operating Procedure (SOP) for services based on IT and perform manual backup.</p> <p>(3) Implement an IT audit.</p> <p>(4) Install anti-spyware and check the antivirus system.</p>

Cooperation Risk

Cooperation risk occurs as a consequence of partnership, affiliations or other forms of cooperative relationships that can affect the performance of zakat institutions in undertaking their management processes. This type of risk happens for several reasons: for example (i) adverse selection of partners has been made; (ii) partners use zakat funds for other purposes; (iii) partners are late in reporting program implementation; or (iv) zakat institutions are too dependent on partners' technology programs.

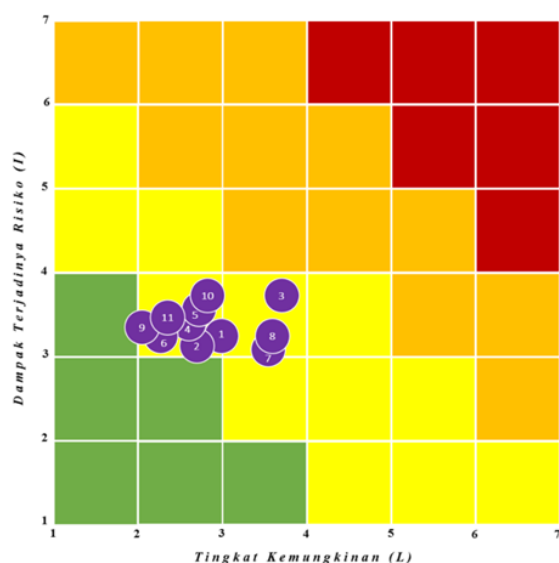


Figure 20: Heatmap of Cooperation Risk

11 types of risk are included in Cooperation Risk. Based on the descriptive analysis and the questionnaire results, assessment of these 11 risks is shown in Table 21.

Table 21: Prioritization of Cooperation Risk, Its Impacts and Mitigations

Code	Identification of Cooperation Risk	L	I	V	S	Impacts	Mitigations
3	Program partners deliver program implementation reports late.	3.7	3.7	2	2	(1) Partners report on program implementation late. (2) Partners who deliver reports late are subject to sanctions or even the threat of partnership termination.	(1) Perform structured and well-designed evaluation and monitoring. (2) Create a Standard Operating Procedure (SOP) for distribution agreements.
8	OPZs have shown shortcomings in establishing partnerships with stakeholders related to zakat.	3.6	3.2	2	2	(1) OPZs have shown shortcomings in establishing partnerships with stakeholders related to zakat. (2) Reduction in OPZ credibility.	(1) Agree consensus on the procedures for managing poorly performing adultery partners. (2) Create a Standard Operating Procedure (SOP) for distribution agreements (3) Create a list of reputable zakat partners and hold evaluation meetings.

7	Late delivery of program reports from the OPZ itself or OPZ partners.	3.5	3.1	2	2	<p>(1) Late delivery of program reports from the OPZ itself or OPZ partners.</p> <p>(2) Reduction in the credibility of the OPZ.</p>	<p>(1) Apply a Service Level Agreement (SLA), according to which reports must be submitted on time, with sanctions imposed on those who violate the rule.</p> <p>(2) Hold evaluation meetings.</p>
10	OPZs depend on the technology of program partners.	2.8	3.7	2	2	<p>(1) Reduction in the integrity and independence of OPZs.</p> <p>(2) OPZs depend on the technology of program partners.</p>	<p>(1) Build OPZs' own technology.</p> <p>(2) Create a Standard Operating Procedure (SOP) for distribution agreements.</p> <p>(3) Evaluate the performance of distribution programs.</p> <p>(4) Use OPZ partner technology.</p>
5	Distribution procedures through partners are infringed.	2.7	3.6	2	2	<p>(1) Distribution procedures through partners are infringed.</p> <p>(2) Partners who deliver reports late are subject to sanctions, or even the threat of partnership termination.</p>	<p>(1) Perform monitoring and evaluation of the use of fund programs.</p> <p>(2) Establish OPZ communication and coordination forums with partners.</p> <p>(3) Impose strict sanctions for any violation.</p>

Program Development Risk

Program development risk emerges when zakat institutions develop and launch new programs. There are several constraints that may occur during the program development process: for example, (i) new programs are not in line with the needs and wishes of the obliged zakat payers and/or the lawful recipients; (ii) the budget exceeds the capability of the zakat institutions; (iii) the programs developed merely copy those of other institutions and are not innovative; and (iv) the monitoring and evaluation of each program are not effective.

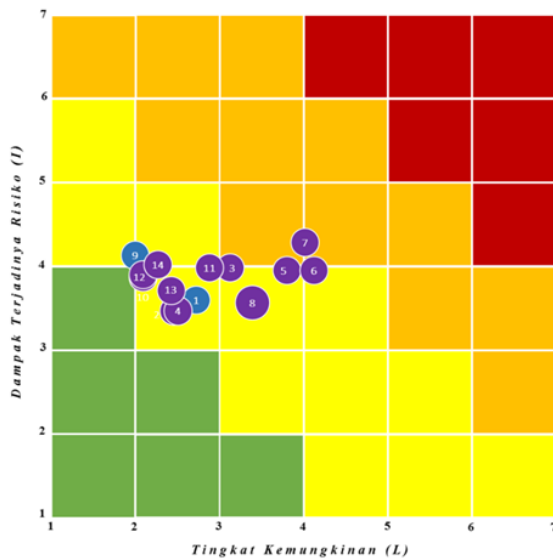


Figure 21: Heatmap of Program Development Risk

Program Development Risk comprises 14 risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is shown in Table 22.

Table 22: Prioritization of Program Development Risk, Its Impacts and Mitigations

Code	Identification of Program Development Risk	L	I	V	S	Impacts	Mitigations
7	The cost for developing a new product is relatively expensive	4.0	4.3	2	2	(1) New donors need to be sought to fund new programs. (2) Slow development of new programs.	Conduct appropriate tests on new programs and ensure that the implementation of any new product is approved by the Program Committee.
6	Insufficient funds for OPZ operations.	4.1	3.9	2	2	(1) Disruption of OPZ operation. (2) New programs become difficult to recognize by mustahik and the lawful recipient participation rate for program success is low.	(1) Cooperate with various related parties and develop programs with a potential assessment approach, not with needs assessment. (2) Set the limit.

5	The socialization of new programs within the community is less extensive, less routine and less intensive.	3.8	3.9	2	2	<p>(1) Communities have inadequate understanding of new OPZ programs.</p> <p>(2) The growth of the community participation rate is slow.</p>	<p>(1) Establish synergies with various parties to improve the efficiency of fund utilization.</p> <p>(2) Set the operational budget in the annual budget plan.</p>
3	Inaccurate research into and testing of new programs.	3.1	4.0	2	2	<p>(1) Failure to develop the program, and the distribution of zakat funds does not reach its target.</p> <p>(2) Failure to execute and measure the program.</p>	<p>(1) Design effective socialization strategies.</p> <p>(2) Select a Person in Charge (PIC) for marketing the product and ensuring there is a proper plan each time a new product is launched.</p>
8	The OPZ does not have sufficient supporters for the newly launched program.	3.4	3.6	3	2	<p>(1) The implementation of new programs is not optimal.</p> <p>(2) Slow implementation of new programs.</p>	<p>(1) Ensure good program assessment following any emerging issues.</p> <p>(2) Reactivate the Research and Development division under the Program Division, which submits monthly reports to directors.</p>

Leadership Risk

Leadership is one of the main factors that supports the success of zakat institutions in reaching their strategic and operational objectives. Leadership risk may occur as a result of several conditions, for example:

- (i). Ineffective leadership of zakat institutions;
- (ii). Overlapping organizational structures;
- (iii). Ineffective remuneration structures;
- (iv). The risk that when choosing the Board of Directors, voters tend to choose well-known figures, or even collude to pick a particular person; and
- (v). The fit and proper test is not effective as a means of selection of zakat institution leaders.

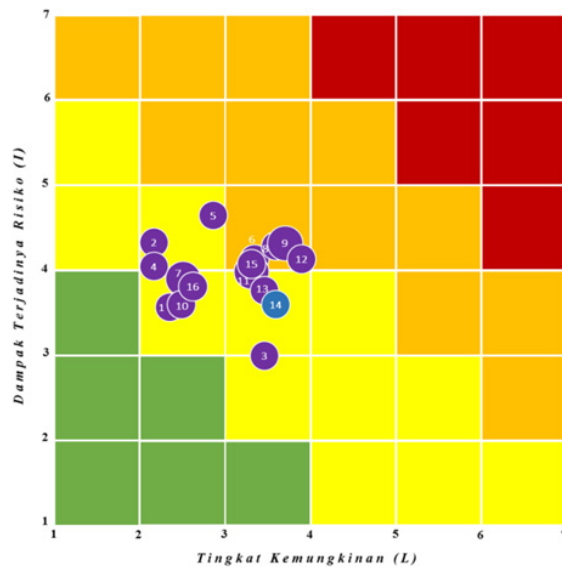


Figure 22: Heatmap of Leadership Risk

Leadership Risk consist of 16 risks. According to the descriptive analysis and the questionnaire results, assessment of the 16 risks is shown in Table 23.

Table 23: Prioritization of Leadership Risk, Its Impacts and Mitigations

Code	Identification of Leadership Risk	L	I	V	S	Impacts	Mitigations
12	Imbalance in amil-satisfaction in the form of reward and punishment.	3.9	4.1	2	2	(1) Imbalance in zakat administrator satisfaction in the form of reward and punishment. (2) Reduction in the number of skilled workers.	(1) Give equal rewards based on performance. (2) Implement a periodic review system for zakat administrator performance.
9	Ineffective remuneration structure	3.7	4.3	3	2	(1) Ineffective remuneration structure; (2) Reduction in the number of skilled workers	Review the remuneration policy

Code	Identification of Leadership Risk	L	I	V	S	Impacts	Mitigations
8	Failure to ensure and maintain OPZ productivity and efficiency.	3.6	4.3	2	2	1) Failure to ensure and maintain OPZ productivity and efficiency. (2) Reduction in the number of skilled workers.	(1) It is necessary to have independent reports measuring OPZ productivity and efficiency. (2) Provide zakat administrators with adequate and fair compensation. (3) Design a standard BOPO ratio and Productivity Ratio.
5	Zakat administrators' idealism fades.	2.9	4.6	2	2	(1) The idealism of zakat administrators fades. (2) Reduction in the number of skilled workers.	(1) Build an organizational culture and enhance the role of the Human Resources Department. (2) Conduct motivation training and strengthen the vision and mission.
6	There could be the risk of not being able to recruit, retain and manage human resources.	3.3	4.1	2	2	(1) Risk of not being able to recruit, retain and manage human resource. (2) Reduction in the number of skilled workers.	(1) Provide a service and working atmosphere for zakat administrators conducive to improving OPZ institutional and zakat administrator performance. (2) Increase zakat administrators' engagement and maintain their welfare levels.

Competition Risk

Competition risk between zakat institutions occurs because (i) there is rivalry between program popularity with other zakat institutions; (ii) of the existence of negative campaigns about zakat institutions, and (iii) there is a disharmonious relationship between BAZNAS (National Board of Zakat) and private zakat institutions, meaning potential obliged zakat payers choose not to pay their zakat through zakat institutions.

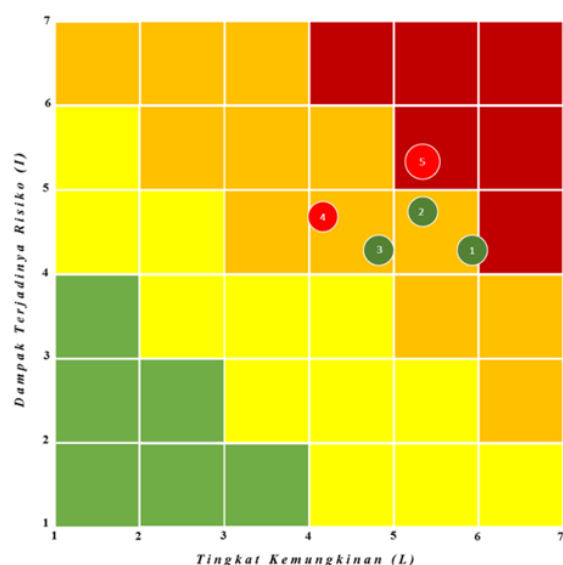


Figure 23: Heatmap of Competition Risk

Five risks are included in Competition Risk. Based on the descriptive analysis and the questionnaire results, assessment of these risks is shown in Table 24.

Table 24: Prioritization of Competition Risk, Its Impacts and Mitigations

Code	Identification of Competition Risk	L	I	V	S	Impacts	Mitigations
5	A disharmonious relationship between BAZNAS (National Board of Zakat) and private zakat institutions.	5-3	5-3	4	4	(1) Lowering of the trust of communities towards OPZ/BAZNAS. (2) Hampers the implementation of regulations and the growth of zakat.	(1) Build good coordination and communication. (2) Respect others and be oriented towards benefits. (3) Build strong communication between BAZNAS and OPZ.
1	Rivalry between OPZs over program popularity	5-9	4-3	3	3	(1) Disharmony between OPZs; (2) The allocation cost for campaign is too high	(1) Set indicators of success for programs which can be measured appropriately; (2) Avoid competition by delivering differentiation in preferred programs

Code	Identification of Competition Risk	L	I	V	S	Impacts	Mitigations
2	Risk of unfair competition with other OPZs	5.3	4.7	3	3	(1) Disharmony between OPZs; (2) Violation of ethics and disruption of the service priorities towards lawful recipients.	(1) Avoid competition with other OPZs by operating in a particular market segment. (2) Set up joint agreements under zakat forums, BAZNAS and the Ministry of Religious Affairs.
3	Risk of unfair competition between OPZs and other humanitarian or social institutions.	4.8	4.3	3	3	(1) Disharmony between OPZs and other social or humanitarian institutions. (2) Violation of ethics and disruption of the service priorities towards lawful recipients.	(1) Perform reviews of the target market, such that an institution focuses on one target market so that there is no competition between OPZs in the same market. (2) Set up joint agreements under zakat forums, BAZNAS and the Ministry of Religious Affairs.
4	Negative campaigns about an OPZ, so the muzaki tend not to pay their zakat through it.	4.2	4.7	3	4	(1) The community tends to distribute their own zakat to potential mustahik. (2) Hampers the growth of OPZs.	(1) Create campaigns through social media and deliver financial reports on time. (2) Set up joint agreements under zakat forums, BAZNAS and the Ministry of Religious Affairs.

Crime/Fraud Risk

Crime/fraud risk correlates with any illicit actions committed by anyone involved in the operation of zakat institutions intentionally for personal or group purposes, and which can harm the institution and damage its reputation. This risk emerges when (i) zakat administrators and lawful recipients manipulate the data; (ii) zakat funds are stolen by zakat administrators; (iii) there is a syndicate of zakat administrators; and (iv) aid proposals are submitted to several zakat institutions.

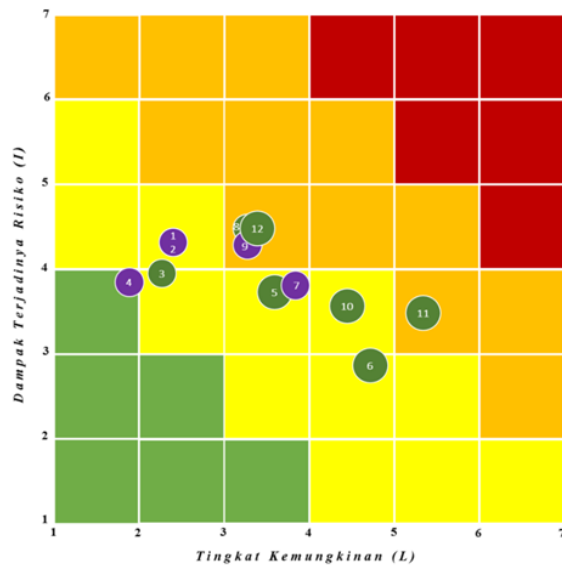


Figure 24: Heatmap of Crime/Fraud Risk

12 risks are included in Crime/Fraud Risk. Based on the descriptive analysis and the questionnaire results, assessment of these 12 risks is partly shown in Table 25.

Table 25: Prioritization of Crime/Fraud Risk, its Impacts and Mitigations

Code	Identification of Crime/Fraud Risk	L	I	V	S	Impacts	Mitigations
11	The mustahik who receive revolving funds are not trustworthy	5.3	3.5	3	3	(1) The revolving fund program is not successful. (2) Damages the reputation and credibility of OPZs.	(1) Assist the recipients of revolving funds. (2) There should be assessment forms and surveys of lawful recipients in the field. (3) There should be sanctions against any lawful recipients who violate the provisions agreed, such as cessation of the disbursement of funds.
10	The mustahik misuse zakat funds (for example, to buy cigarettes)	4.5	3.6	3	3	(1) The distribution of zakat funds does not correspond to the target. (2) Damages the reputation and credibility of OPZs.	(1) Hold counseling sessions and educate the mustahik (2) Training periodically (3) Sanctions against the mustahik who violate the provisions agreed, such as cessation of the disbursement of funds.

12	Zakat institution partners who mis-use zakat funds.	3-4	4-5	3	3	(1) Decline in the credibility of OPZs. (2) Violation of the regulations, as well as of Sharia laws.	(1) Improve the monitoring and evaluation process. (2) Implement an online reporting system and also make direct visits to the program sites. (3) Impose sanctions.
8	Zakat administrators embezzle the zakat funds directly obtained from the obliged zakat payers.	3-3	4-5	2	3	(1) Decrease in OPZ credibility and public trust. (2) Violation of the regulations and Sharia laws.	(1) Perform regular internal audits. (2) There should be a notification system to the obliged zakat payers of donations submitted through zakat administrators via offices or via ATMs. (3) There should be a notification system to the obliged zakat payers related to the replacement of new human resources. (4) Develop customer relations.
7	Zakat administrators who are not dependable in terms of time (too late in the distribution of zakat funds to mustahik).	3-8	3-8	2	2	(1) The mustahik receive the zakat funds late. (2) Damage to OPZ reputation and credibility.	(1) Create an SOP for the distribution of zakat. (2) Perform internal audits. (3) There should be a financial SOP related to CA (Cash Advance) distribution.

PROPERTY RISK

Human Risk

Property risk occurs to the property or assets of zakat institutions caused by human behavior, economic uncertainty or natural disasters, resulting in zakat institution losses. The risk of property loss caused by human behavior can be the result of (i) damage or fire affecting institutions' operational tools because of zakat administrator negligence; (ii) zakat institution offices being robbed; (iii) irresponsible zakat administrators; (iv) the existence of lawsuit, riots, sabotage or strikes, or (v) corruption, collusion and nepotism.

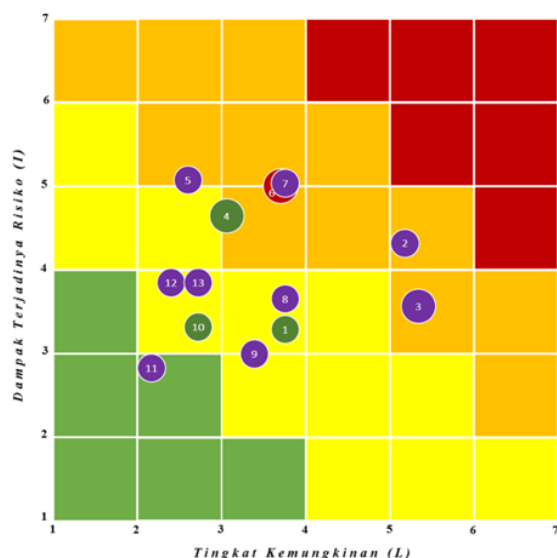


Figure 25: Heatmap of Human Risk

13 risks are included in Human Risk. Based on the descriptive analysis and the questionnaires, assessment of these risks is shown in Table 26.

Table 26: Prioritization of Human Risk, Its Impacts and Mitigations

Code	Identification of Human Risks	L	I	V	S	Impacts	Mitigations
2	OPZ offices are robbed	5.2	4.3	2	2	(1) Loss of OPZ assets; (2) Reduction in OPZ performance; (3) Damage to the reputation of the OPZ	(1) Provide an adequate physical security system in all offices; (2) Security (CCTV, etc)
3	Sub-standard OPZ working places.	5.3	3.6	3	2	(1) Zakat administrators work less optimally. (2) The comfort level and stability of the work quality of employees are compromised.	(1) Conduct monitoring and evaluation of workplace conditions so that they are suitable. (2) Create a standard form of workspace arrangement.(3) Implement ISO 9001: 2015.
7	The occurrence of lawsuits	3.8	5.0	2	2	(1) Affects public trust in OPZs. (2) Can harm zakat administrators and their institutions.	It is necessary to have institutional regulations contained in the Standard Operating Procedure (SOP) related to compliance with the law.

6	OPZ offices can be at risk of fire (of human origin).	3.7	5.0	3	5	(1) Loss of facilities/infrastructure, assets and data. (2) Can harm zakat administrators and institutions.	(1) Insure all the physical assets of the building. (2) Provide fire extinguishers and evacuation guidance.
4	Zakat administrators are irresponsible for the damage and destruction of zakat funds (due to the negligence of zakat administrators).	3.1	4.6	3	3	(1) This can interfere with zakat administrators' activities and it will take quite a long time to recover. (2) Can harm zakat administrators and institutions.	(1) Socialize the compliance standards. (2) It is necessary to have a Standard Operating Procedure (SOP) related to the maintenance of work facilities. (3) Selective recruitment of zakat administrators. (4) Train zakat administrators weekly with regard to management and spiritual.

Economic Risk

Property loss risk can be caused by economic uncertainty; for instance, if there are currency fluctuations, price changes, shifts in preferences, economic recession, scarcity of resources or technological changes.

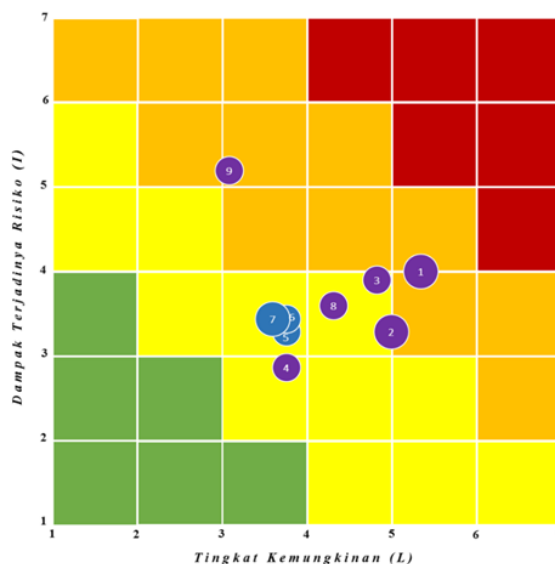


Figure 26: Heatmap of Economic Risk

Nine risks are included in Economic Risk. Based on the descriptive analysis and the questionnaire results, assessment of these risks is shown in Table 27.

Table 27: Prioritization of Economic Risk, Its Impacts and Mitigations

Code	Identification of Economic Risks	L	I	V	S	Impacts	Mitigations
1	The occurrence of currency fluctuations	5.3	4.0	3	2	Disruption to the existence and growth of OPZs in the short/medium/long run	Management needs to reset its budget to be able to readjust with OPZ cash flow capabilities
3	The occurrence of political change	4.8	3.9	2	2		Maintaining internal stability
2	The occurrence of interest rate or price change	5.0	3.3	3	2		Maintaining internal stability
9	The occurrence of war	3.1	5.2	2	2		Safety security for amil
8	The occurrence of technological change	4.3	3.6	2	2		Keep up-to-date on technological developments.

Natural Disasters Risk

Natural disasters can also cause property loss to zakat institutions. This happens when available resources are inadequate for overcoming the threat of natural disasters which can cause loss of life, and damage to infrastructure and the surroundings. There are several examples of natural disasters risk, such as earthquakes, natural fires, floods and outbreaks of disease.

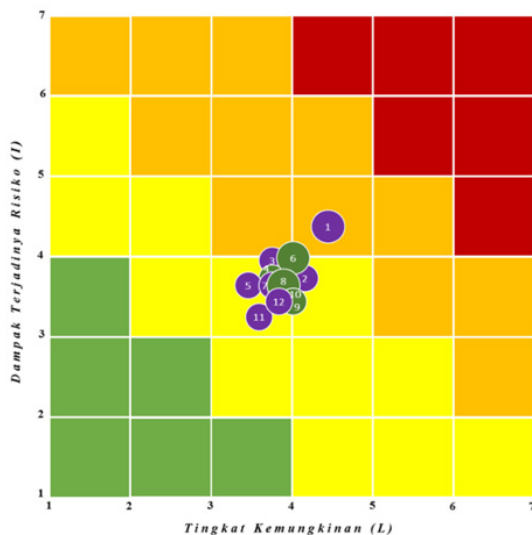


Figure 27: Heatmap of Natural Disasters Risk

Natural Disaster Risk comprises 12 risks. According to the descriptive analysis and the questionnaire results, assessment of these risks is presented in Table 28.

Table 28: Prioritization of Natural Disasters Risk, Its Impacts and Mitigations

Code	Identification of Natural Disasters Risk	L	I	V	S	Impacts	Mitigations
1	Zakat assets reduction risk.	4.5	4.4	3	2	(1) Damage to OPZ assets. (2) Interferes with OPZ operations and performance. (3) Burden to operational costs.	(1) Insure the managed assets which come from public funds. (2) Perform standard practices in managing zakat assets.
6	The occurrence of earthquakes.	4.0	4.0	3	3	(1) Damage to OPZ assets. (2) Affects OPZ performance. (3) Inhibits zakat management activities (collection, management, distribution).	(3) Gradual maintenance and rejuvenation of assets. (4) Cooperate with the National Agency for Combating Terrorism (BNPT) and the Meteorology, Climatology and Geophysical Agency (BMKG) to determine precautionary actions.
2	Damages to the OPZ operational facilities (not amil negligence)	4.2	3.7	2	2	(1) Damage to OPZ assets. (2) Interferes with OPZ operations and performance. (3) Burden on operational costs. (4) The level of efficiency decreases.	(5) Train employees in Disaster Management. (6) There should be a policy to keep an inventory of all fixed assets related to risks due to force majeure.
3	Lack of action for securing OPZ facilities.	3.8	3.9	2	2	(1) Damage to OPZ assets. (2) Interferes with OPZ operations and performance. (3) Burden on operational costs.	(7) Take out OPZ facility insurance.
8	The occurrence of floods.	3.9	3.6	3	3	(1) Damage to OPZ assets. (2) Affects OPZ performance. (3) Inhibits zakat management activities (collection, management, distribution)	(8) Establish an annual budget for institutional infrastructure. (9) Design standards for handling related conditions.

AMIL AND VOLUNTEER RISK**Amil Governance Risk**

Amil or zakat administrator risk emerges when a zakat institution is not able to recruit, maintain and manage its human resources. The risk happens if (i) there is no standardization of good zakat administrator governance; (ii) there is an absence of structured

and systemic zakat administrator training; (iii) future zakat administrator career paths are not clear; (iv) zakat administrators are underpaid; (v) communication is poor; or (vi) there is a human resource mindset that zakat institutions are not the main choice for talented job seekers.

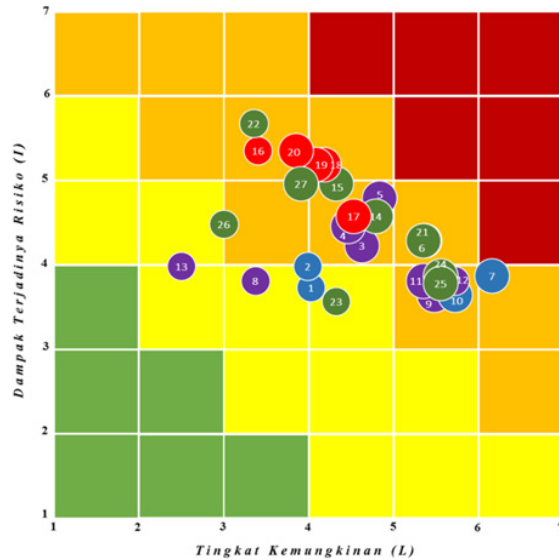


Figure 28: Heatmap of Amil Governance Risk

27 risks are included in Amil Governance Risk. Based on the descriptive analysis and the questionnaire results, assessment of these 27 risks is simplified in Table 29.

Table 29: Prioritization of Amil Governance Risk, Its Impacts and Mitigations

Code	Identification of Amil Governance Risk	L	I	V	S	Impacts	Mitigations
18	Amil work ineffectively in providing assistance on empowerment programs for the poor.	4.2	5.2	3	4	The lack of effectiveness of OPZ management of zakat funds can reduce public trust of OPZs.	(1) All amil should be required to undergo competency test certification through the Professional Certification Institute-National Professional Certification Agency(LSP-BNSP). (2) Design a Standard Operating Procedure (SOP) for program assistance. (3) Run 'Project Management Training'.

Code	Identification of Amil Governance Risk	L	I	V	S	Impacts	Mitigations
19	Zakat administrators work ineffectively in monitoring projects that are funded by OPZs.	4.1	5.2	3	4	Muzaki are not satisfied; ineffective zakat collection.	(1) Create a Standard Operating Procedure (SOP) for project monitoring. (2) Run 'Project Management Training'.
20	Working as zakat administrator is only a side job/second job.	3.8	5.3	3	4	OPZs have few talented human resources.	(1) Only hire full time employees. (2) Disallow zakat administrators from having a side job and pay them an appropriate amount for their responsibilities.
17	Zakat administrators work ineffectively in evaluating project proposals that will be funded by the OPZ.	4.5	4.6	3	4	Risk of misdirected and inefficient programs.	(1) Design a Standard Operating Procedure (SOP) for proposal approval. (2) Run 'Project Management Training'.
16	Zakat administrators not on time or broke the promises (undisciplined)	3.4	5.3	2	4	Damage to OPZ reputation.	(1) Create a Standard Operating Procedure (SOP) for disciplinary actions in the workplace. (2) Establish strict rules about attitudes in the workplace.

Volunteer Management Risk

Volunteer management risk emerges when zakat institutions are not fully committed to developing and implementing good governance standards for their volunteers. There are several issues that can possibly cause this risk to occur:

- (i). the limited quality of prospective volunteers;
- (ii). inefficient volunteer screening;
- (iii). the low quality of volunteers; and
- (iv). the lack of work commitment, volunteer supervision, and communication between zakat administrators and volunteers.

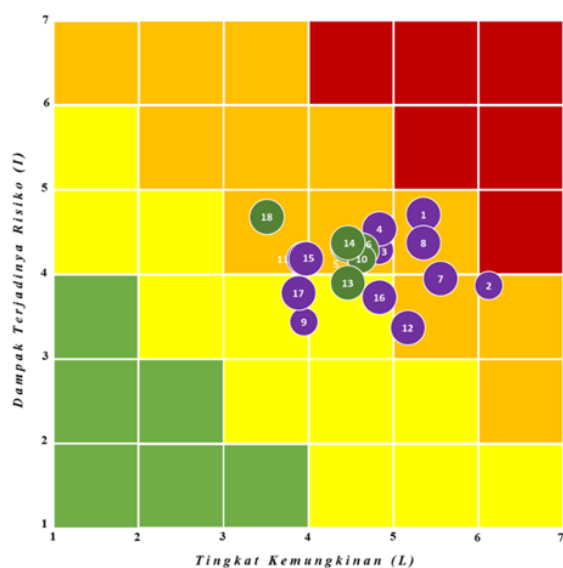


Figure 29: Heatmap of Volunteer Management Risk

Volunteer Management Risk consists of 18 risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is shown in Table 30.

Table 30: Prioritization of Volunteer Management Risk, Its Impacts and Mitigations

Code	Identification of Volunteer Management Risk	L	I	V	S	Impacts	Mitigations
1	There is no standardization of good volunteer governance	5.3	4.7	3	2	Damage to OPZ reputation and the professional code of ethics	1) There should be guidelines for volunteer management. (2) Design volunteer standard. (3) Develop a volunteer code of conduct.
2	The quality of prospective volunteers is limited	6.1	3.9	2	2	Has an effect on OPZ existence/ growth in the short/ medium/ long run.	(1) A tiered recruitment and training process should be followed. (2) Expand information on volunteer needs. (3) Conduct initial selection of prospective volunteers as needed.

Code	Identification of Volunteer Management Risk	L	I	V	S	Impacts	Mitigations
8	Lack of communication between volunteers and amil	5.3	4.4	3	2	Inefficiency and ineffectiveness of resources.	(1) It is necessary to periodically coordinate and consolidate among volunteers. (2) Agree on the flow of volunteer communication with zakat administrators.
7	Lack of communication between volunteers.	5.5	3.9	3	2	Resource inefficiency.	(3) Create a volunteer website and instant email/group messages.
4	Low quality of volunteers	4.8	4.5	3	2	Interferes with OPZ existence/ growth in the short/ medium/ long run.	(1) Periodically run training and hold competency tests. (2) Standardization of volunteer training (3) Develop a routine training agenda.

MUZAKI AND MUSTAHIK RISK

Muzaki Risk

Muzaki (zakat payer) risk can arise when zakat institutions are faced with the situation when (i) obliged zakat payers do not know how to calculate the amount of zakat payable; (ii) they distribute their zakat to more than one zakat institution; (iii) they pay their zakat anonymously; and (iv) they pay zakat seasonally (only during Ramadan).

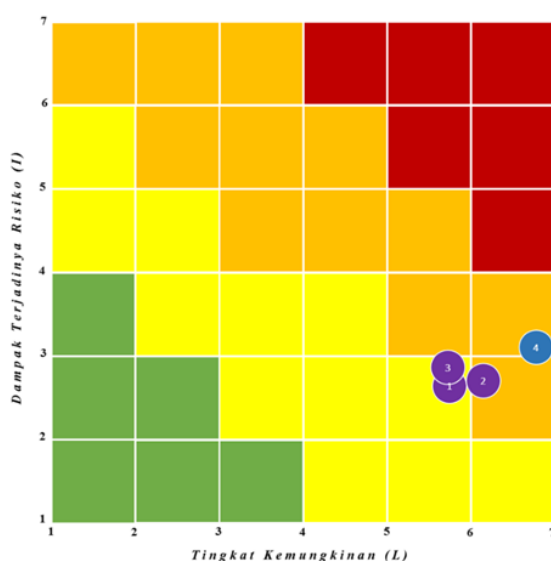


Figure 30: Heatmap of Muzaki Risk

Four types of risk are included in Obligated Zakat Payer Risk. Based on the descriptive analysis and the questionnaire results, assessment of these risks is shown in Table 31.

Table 31: Prioritization of Muzaki Risk, Its Impacts and Mitigations

Code	Identification of Muzaki Risk	L	I	V	S	Impacts	Mitigations
4	There are many muzaki who pay zakat seasonally (only during Ramadan).	6.8	3.1	2	1	(1) Causes unstable collections. (2) Affects the performance of collection and distribution. (3) Service levels increase seasonally.	Socialization carried out by zakat institution in communities through various kinds of media owned by the institution and/or using external media.
2	Obligated zakat payers distribute their zakat to more than one OPZ.	6.2	2.7	2	2	(1) Zakat collection targets are not met. (2) Fall in collection funds. (3) The effect is not too significant in the medium/long term.	Create an appealing distribution program to attract more donors.
3	Obligated zakat payers pay their zakat anonymously (cannot be identified).	5.7	2.9	2	2	(1) OPZs cannot provide proof of zakat paid to the muzaki. (2) Causes too many notes in the financial statements and it is difficult to determine the type of funds. (3) Affects the aspects of reporting and evidence of accountability.	(1) Trace the origin of funds. (2) Use of virtual accounts system, etc.
1	Obligated zakat payers do not know how to calculate the amount of zakat payable.	5.8	2.6	2	2	<ul style="list-style-type: none"> If the calculation of zakat is excessive, then the status of the fund is not zakat but infaq or sadaqah. If the calculation is below the correct amount, recipients still have a right to the wealth of muzaki. 	(1) Provide zakat consultation services. (2) Carry out socialization in the communities through all the kinds of media owned by the institution.

Loss of Muzaki Risk

The risk of losing *muzaki* (zakat payers) occurs when they tend to pay zakat independently (not through zakat institutions); they are not loyal to a particular zakat institution; they switch to other zakat institutions; and they have doubts about certain zakat institutions.

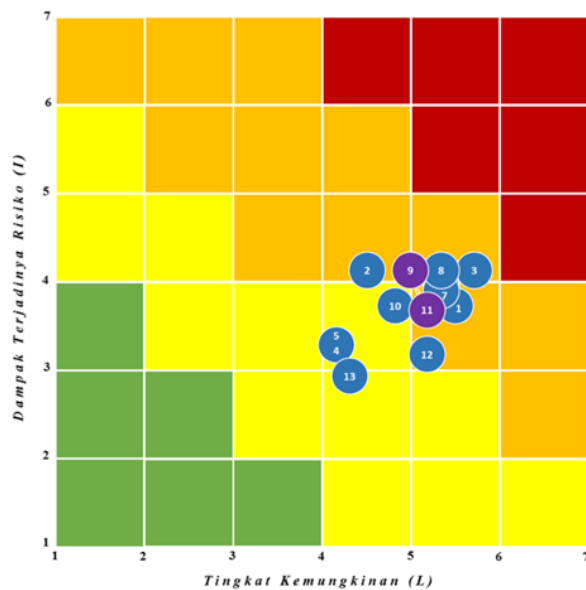


Figure 31: Heatmap of Loss of Muzaki Risk

Loss of Muzaki Risk comprises 13 risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 32.

Table 32: Prioritization of Loss of Muzaki Risk, Its Impacts and Mitigations

Code	Identification of Loss of Muzaki Loss Risk	L	I	V	S	Impacts	Mitigations
3	Muzaki switch to another OPZ.	5.7	4.1	2	1	(1) OPZs have unstable collections.	1) Carry out socialization by zakat institutions in the communities through all the kinds of media owned by the institution and/or using external media. (2) Create appealing distribution programs to attract more donors. (3) Trace the origin of funds. (4) Use of virtual account system etc.; (5) Provide zakat consultation services. (6) Introduce OPZs as professional zakat institutions. (7) Educate donors that OPZs understand potential recipient mapping better.
8	Muzaki do not understand the importance of paying zakat through an OPZ.	5.3	4.1	2	1	(2) Affects the performance of collection and distribution.	
6	Muzaki are not familiar with OPZs.	5.3	3.9	2	1	(3) The level of service increases seasonally.	
7	Muzaki lack trust in OPZs.	5.3	3.9	2	1	(4) Zakat collection targets are not met.	
1	Muzaki tend to pay zakat independently.	5.5	3.7	2	1	(5) Reduced collections.	
						(6) The effects will be not too significant in the medium/long term.	
						(7) The zakat collection is not stable.	
						(8) Affect the performance of collection and distribution	
						(9) The level of service increases seasonally;	

Muzaki Satisfaction Risk

Muzaki satisfaction risk can be experienced by zakat institutions if: (i) obliged zakat payers are not satisfied with the institution's services; (ii) obliged zakat payers think that zakat administrator services are not professional; (iii) zakat administrator services to obliged zakat payers are slow; (iv) there is a failure in the donor service system, and (v) zakat administrators are not responsive to obliged zakat payers' complaints or community recommendations.

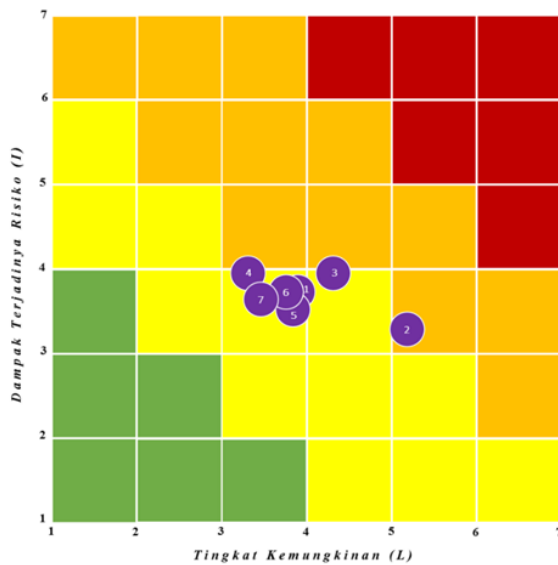


Figure 32: Heatmap of Muzaki Satisfaction Risk

Seven risks are included in Obligated Zakat Payer Satisfaction Risk. Based on the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 33.

Table 33: Prioritization of Muzaki Satisfaction Risk, Its Impacts and Mitigations

Code	Identification of Muzaki Satisfaction Risk	L	I	V	S	Impacts	Mitigations
2	Muzaki demands excellent service from the OPZ	5.2	3.3	2	2	Muzaki switch to another OPZ or choose to distribute their own zakat	(1) Create a Standard Operating Procedure (SOP) for providing services to muzaki. (2) Distribute a questionnaire to capture service expectations from the point of view of muzaki.

Code	Identification of Muzaki Satisfaction Risk	L	I	V	S	Impacts	Mitigations
3	OPZ services are not professional	4.3	3.9	2	2	Muzaki are not satisfied, so zakat collection is less than effective.	(1) Create a Standard Operating Procedure (SOP) for providing services to muzaki and for amil codes of ethics. (2) Conduct benchmarking with other professional institutions (with similar institutions or in different industries).
1	Obliged zakat payers were not satisfied with OPZ services	3.9	3.7	2	2	Muzaki switch to another OPZ or choose to distribute their own zakat.	(1) Set a high standard of customer satisfaction; (2) Improve the quality of services
6	Poor response to public (donors) complaints	3.8	3.7	2	2	Decrease in OPZ credibility and public trust.	(1) Create a Standard Operating Procedure (SOP) for handling donor complaints. (2) Perform internal audits and implement ISO 9001: 2015.
5	Failure of donors service system (office system of donors services)	3.8	3.5	2	2	Risk of switching; decrease in collection performance; reputation risk.	(1) Create a strong on-line-based system. (2) Internal audits and implementation of ISO 9001: 2015.

Mustahik Risk

Mustahik (zakat recipient) risk is associated with situations in which (i) there is a lack of standardization on verifying the lawful recipients in each program; (ii) there are no adequate indicators to measure lawful recipient welfare; (iii) lawful recipients obtain zakat funds from several zakat institutions; (iv) lawful recipients who have died are still receiving zakat funds; and (v) lawful recipients who are now financially independent are still receiving zakat.

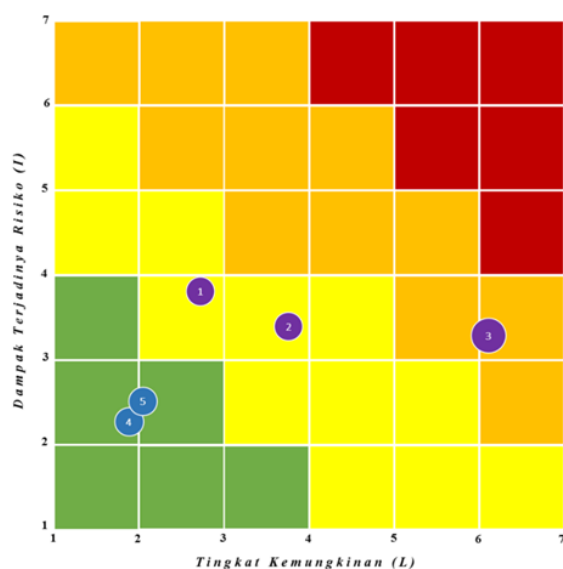


Figure 33: Heatmap of Mustahik Risk

Lawful Recipient Risk consists of five risks. According to the descriptive analysis and the results of the questionnaire, assessment of these is presented in Table 34.

Table 34: Prioritization of Mustahik Risk, Its Impacts and Mitigations

Code	Identification of Lawful Recipients Risk	L	I	V	S	Impacts	Mitigations
3	Mustahik receive zakat from several OPZs	6.1	3.3	3	2	(1) Zakat funds are not evenly distributed. (2) Difficulty in determining lawful recipients. (3) Overlapping assistance.	(1) Create excellent policies and procedures for muzaki services. (2) OPZ and BAZNAS should work together to create a single mustahik ID system.
2	The absence of indicators for measuring the welfare of muzaki	3.8	3.4	2	2	(1) Difficulty in determining mustahik (2) Failure to identify the development of mustahik (3) Hampers the accuracy of the distribution process.	(1) Conduct mustahik satisfaction surveys and periodically review the impact of programs. (2) Create indicators to measure the welfare of mustahik (3) Perform internal audits and implement ISO 9001: 2015.

1	There is no standardization in verifying mustahik in each program.	2.7	3.8	2	2	<ul style="list-style-type: none"> (1) Many funds are not on target. (2) Risk of incorrect distribution targets. (3) Hampers the accuracy of the distribution process. 	<ul style="list-style-type: none"> (1) Develop good communication and collaboration between zakat managers. (2) Design a Standard Operating Procedure (SOP) for verifying the mustahik on each program. (3) Strengthen the monitoring and evaluation systems of the institution.
5	Mustahik who are now financially independent are still receiving zakat.	2.0	2.5	2	1	<ul style="list-style-type: none"> (1) Distribution of zakat funds is less effective. (2) Difficult to determine mustahik. (3) Incorrect distribution. (4) Affects OPZ credibility. (5) Hampers the accuracy of the distribution process. 	<ul style="list-style-type: none"> (1) Strengthen the database of mustahik and keep the data updated. (2) Ensure good communication between OPZ and BAZNAS.
4	Mustahik who have died are still receiving zakat	1.9	2.3	2	1	<ul style="list-style-type: none"> (1) Distribution of zakat funds is less effective. (2) Difficult to determine mustahik. (3) Risk of incorrect distribution targets. (4) Hampers the accuracy of the distribution process 	<ul style="list-style-type: none"> (1) Strengthen the database of mustahik and keep the data updated. (2) Ensure good communication between OPZ and BAZNAS. (3) Monitoring and evaluation.

Loss of Mustahik Risk

The risk of losing mustahik (zakat recipients) is a situation experienced by the zakat institution when (i) the areas where the lawful recipients live are difficult to reach; (ii) many lawful recipients cannot be identified by the zakat institutions; (iii) lawful recipients continually change address; and (iv) the lawful recipients do not have national identity cards.

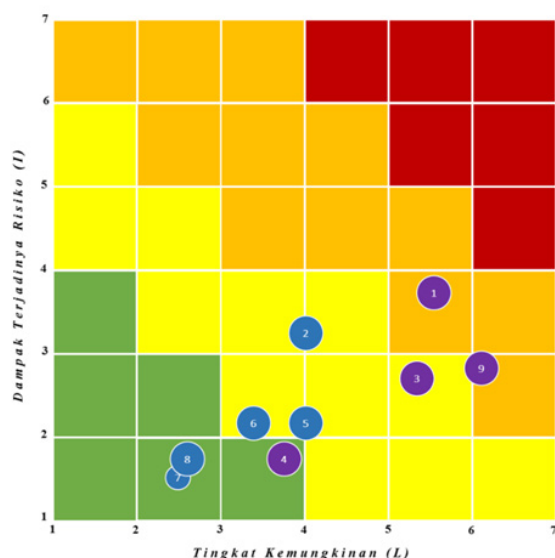


Figure 34: Heatmap of Loss of Mustahik Risk

Nine risks are included in the Loss of Lawful Recipients Risk. Based on the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 35.

Table 35: Prioritization of Loss of Mustahik Risk, Its Impacts and Mitigations

Code	Identification of Loss of Mustahik Risk	L	I	V	S	Impacts	Mitigations
1	Mustahik are in locations which are difficult to reach	5.5	3.7	2	2	1) Mustahik do not receive the zakat funds on time. (2) Requires greater funds to reach the mustahik. (3) Mustahik coverage is limited or has high operational costs.	(1) Open a representative office that is convenient to reach for potential donors. (2) Cooperate with local representatives. (3) Create synergy between institutions.
9	Mustahik do not have a national identity card.	6.1	2.8	2	2	(1) Mustahik cannot be served. (2) Difficult to make reports. (3) Risk to the validity of mustahik data.	(1) Strengthen mustahik database and information system. (2) Use an available identity card. (3) Conduct social mapping and work together with local officers.

Code	Identification of Loss of Mustahik Risk	L	I	V	S	Impacts	Mitigations
3	Mustahik con-tinually change address.	5.3	2.7	2	2	(1) Zakat funds are late or even not distributed. (2) Larger funds re-quired to reach the mustahik. (3) Risk to the validity of mustahik data.	(1) Strengthen community assistance and local culture. (2) Make groups based on identity. (3) Perform socialization of the mustahik and conduct social mapping.
2	OPZs cannot identify the mus-tahik.	4.0	3.2	2	1	(1) Zakat funds are not evenly distributed. (2) Mustahik do not re-ceive the zakat funds. (3) Larger funds re-quired to reach the mustahik. (4) Weaknesses in OPZ assessment and data-bases.	(1) Provide alternative dis-tribution with the help of local community leaders. (2) Encourage cooperation between institutions and conduct social mapping
5	Mustahik do not know that they can receive zakat from OPZs.	4.0	2.2	2	1	(1) Mustahik cannot ful-fil their basic needs. (2) It is necessary to car-ry out re-socialization. (3) Does not significant-ly affect channeling performance.	(1) Actively encourage the beneficiaries to complete their personal and family identity, coordinating with relevant government offic-es and agencies. (2) Educate the mustahik.

Mustahik Satisfaction Risk

Lawful recipient satisfaction risk can arise when (i) the lawful recipients are not satisfied with the services of the zakat institutions; (ii) the service of the zakat administrator (zakat institutions) is slow (recipient service office systems); (iii) lawful recipients demand excellent services from zakat institutions; and (iv) there is a failure of the lawful recipient service system.

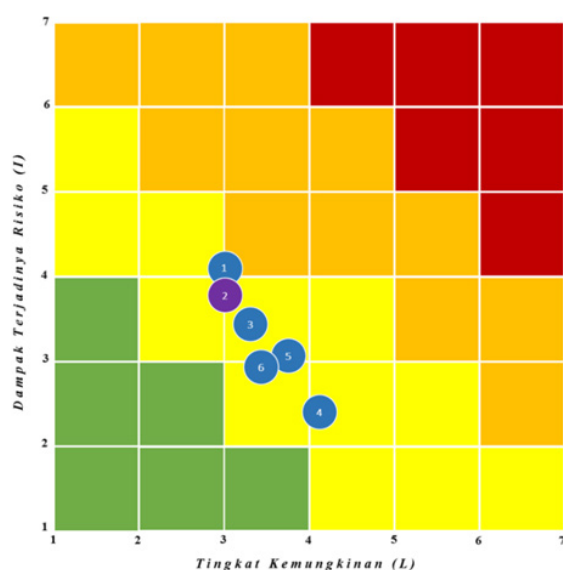


Figure 35: Heatmap of Mustahik Satisfaction Risk

Lawful Recipient Satisfaction Risk consists of six risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 36.

Table 36: Prioritization of Mustahik Satisfaction Risk, Its Impacts and Mitigations

Code	Identification Mustahik Satisfaction Risk	L	I	V	S	Impacts	Mitigations
1	Lack of responsiveness to public complaints (from mustahik).	3.0	4.1	2	1	(1) Decrease in OPZ credibility and public trust. (2) Hampers the distribution process and damages OPZ reputation.	(1) Create a Standard Operating Procedure (SOP) for how to handle recipient (mustahik) complaints. (2) Embed understanding of equal services between obliged zakat payers and mustahik. (3) Implement ISO 9001: 2015, specifically in the empowerment program.
5	Slow amil service to mustahiks (mustahik service office system)	3.8	3.1	2	1	(1) Fall in distribution performance and OPZ credibility. (2) Hampers the distribution process and damages OPZ reputation.	(1) Conduct a monitoring and evaluation process of program development. (2) Design service standards for mustahik (systems, human resources, flows, etc.); (3) Implement ISO 9001: 2015.

Code	Identification Mustahik Satisfaction Risk	L	I	V	S	Impacts	Mitigations
2	Lack of responsiveness of zakat administrators towards input/suggestions from communities (recipients).	3.0	3.8	2	2	Weakens OPZ credibility and public trust	(1) Create a Standard Operating Procedure (SOP) on how to handle mustahik suggestions and input. (2) Perform socialization of mustahik ballot mechanisms and communication channels related to zakat institution services.
3	Mustahiks are not satisfied with the OPZ services.	3.3	3.4	2	1	(1) Affects distribution performance and OPZ credibility. (2) Service system improvement.	(1) Maintain relationships with all beneficiaries who have been fostered by zakat organizations. (2) Implement ISO 9001: 2015.
4	Mustahiks demand excellent service from OPZs.	4.1	2.4	2	1	1) Invest in human resources, systems and technology. (2) (2) Risk to operational costs.	(1) Design mustahik satisfaction standards. (2) Implement ISO 9001: 2015.

Ethics Code Risk

Ethics code risk is associated with the code of ethics for zakat management processes. If obliged zakat payers give gifts to zakat administrators, meaning they have no understanding of the courtesies connected to paying zakat (intentions, immediately, not *riya'*); if lawful recipients give gifts to zakat administrators; if lawful recipients do not understand the courtesies related to receiving zakat (using it wisely; saying thank you); and if zakat administrators have no understanding about the courtesies around collecting zakat funds (being just, honest, trustworthy and sincere) are examples of risks associated with the code of ethics that may occur in zakat institutions.

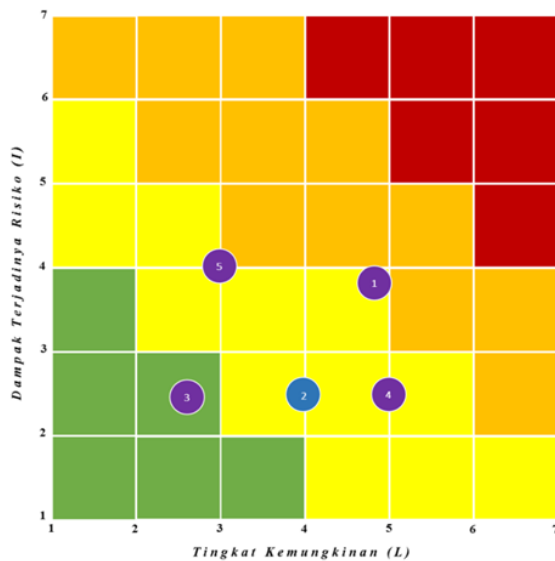


Figure 36: Heatmap of Ethics Code Risk

Ethics Code Risk comprises five risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is presented in Table 37.

Table 37: Prioritization of Ethics Code Risk, Its Impacts and Mitigations

Code	Identification of Ethics Code Risk	L	I	V	S	Impacts	Mitigations
1	Muzaki give gifts to zakat administrators (ethics code risk).	4.8	3.8	2	2	In the long run, this will destroy zakat administrators' sincerity.	(1) Provide clear rules in the code of ethics, including punishments and rewards. (2) Perform socialization with all stakeholders about the zakat administrator code of ethics through the media and resources owned by the institution.
4	Mustahiks do not understand the courtesies involved when accepting zakat (using the funds wisely, being thankful, etc.)	5.0	2.5	2	2	Risk to Sha-ria compliance.	(1) Implement excellent service policies and procedures for mustahiks. (2) Educate mustahiks. (3) Undertake regular coaching, monitoring and evaluation.
5	Amil do not understand the courtesies connected with collecting zakat (being just, honest, trust-worthy, sincere, etc.)	3.0	4.0	2	2	Violates the code of ethics and Sha-ria compliance.	(1) OPZs need to standardize their SOPs based on ISO. (2) Training and education for all zakat administrators. (3) Educate zakat administrators regularly, which can be in the form of training.

Code	Identification of Ethics Code Risk	L	I	V	S	Impacts	Mitigations
2	Muzaki do not understand the courtesies around paying zakat (intentions, immediately, not riya', etc.)	4.0	2.5	2	1	Risk to Sha-ria compli-ance.	(1) A pocket book or short manual should be produced for muzaki. (2) Educate muzaki about corresponding courtesies. (3) Zakat institutions should socialize the matter in society through the media.
3	Mustahiks give gifts to zakat ad-minis-trators (risk to ethics code).	2.6	2.5	2	2	Amil are less objec-tive in de-termining mustahiks.	Provide clear rules in the code of ethics, including punishments and rewards.

INTERNATIONAL ZAKAT TRANSFER RISK

International zakat transfer risk potentially occurs when there is a transfer from a zakat-rich country as the obliged zakat payer to a zakat-deficient country as the lawful recipient. There are several reasons why this risk could happen. First, there are no internationally accepted zakat management standards. Second, donor and recipient countries have different zakat standards. Third, there is a high country risk of the receiver country. Fourth, the absence of assessment of country or transfer risk by either country. Finally, both countries are unwilling to share any confidential information, and in the worst possible case, there are no zakat institutions in the countries.

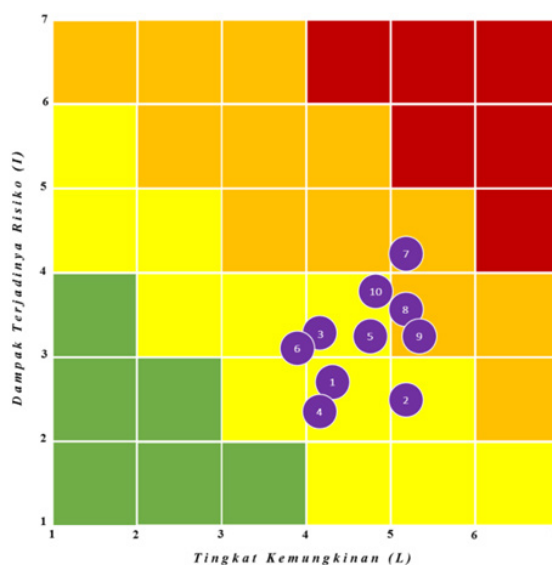


Figure 37: Heatmap of International Zakat Transfer Risk

International Zakat Transfer Risk consists of ten risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 38.

Table 38: Prioritization of International Zakat Transfer Risk, Its Impacts and Mitigations

Code	Identification of International Zakat Transfer Risk	L	I	V	S	Impacts	Mitigations
7	Absence of a model and analysis of country and transfer risk by the zakat institutions in each country.	5.2	4.2	3	2	The donor country is wary about transfer-ring zakat to the recipient country.	Participate actively in the development of the National Zakat Index in order to assess the risk and governance of regional zakat management, so that in the future it can be used for cross-country zakat transfers.
8	The zakat institutions (in the donor and recipient countries) have not agreed on the distribution of zakat administrators' managerial fees.	5.2	3.6	3	2	Risk to Sharia compliance; inhibits coordination and activities in both countries.	Develop an institution in the form of an NGO and establish synergies with partners in other countries in joint program collaboration.
10	The zakat institutions (in the donor and recipient countries) do not have policies or processes to mitigate country and transfer risk.	4.8	3.8	3	2	(1) Incompatible systems, which inhibit cross-country cooperation and activities (2) Delay in the transfer of zakat between countries.	Develop various international and national humanitarian associations to expand and facilitate the distribution of cross-country programs, such as SEAHUM, AMMA, OCHA, Planas PRB, HFI, etc.
9	No zakat institution is available either in the donor or recipient country.	5.3	3.2	3	2	The absence of policies and processes to mitigate country and transfer risk.	Develop an institution in the form of an NGO and establish synergies with partners in other countries involved in joint program collaboration.
5	The donor and recipient countries are reluctant to share confidential information.	4.8	3.2	3	2	The donor country is wary about transfer-ring zakat to the recipient country.	Through the World Zakat Forum and the Zakat Core Principles, actively participate in the development of the ZCP and the drafting of the International Standard of Zakat Management.

RECORDING AND REPORTING RISK

Reporting Risk

Reporting risk is a situation experienced by zakat institutions when they are unprepared to report all their activities to stakeholders. This risk emerges when (i) there is no standardized form for zakat institutions to report to their stakeholders; (ii) zakat institutions lack professionalism when making reports; (iii) reports are not made periodically (continuously); and (iv) delays occur in reporting zakat management to the stakeholders

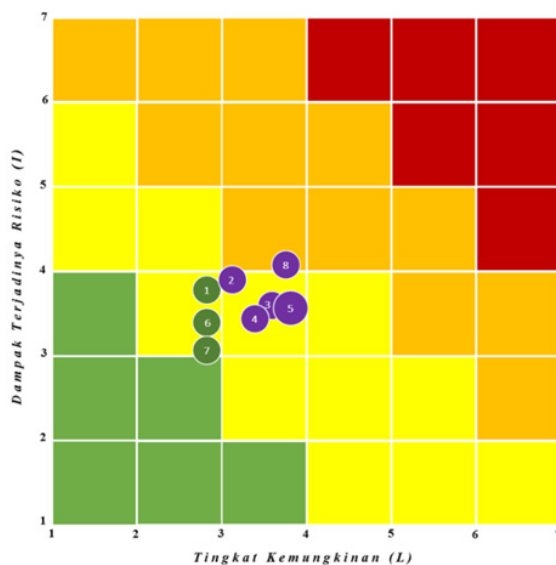


Figure 38: Heatmap of Reporting Risk

Reporting Risk consists of 12 risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 39.

Table 39: Prioritization of Reporting Risk, Its Impacts and Mitigations

Code	Identification of Reporting Risk	L	I	V	S	Impacts	Mitigations
9	There is no syn-chronization be-tween the zakat reporting of BA-ZNAS and private OPZs.	5.2	4.1	3	2	(1) Weakened credibil-ity of BAZNAS/OPZ. (2) Causes public dis-trust	(1) Create reporting stan-dards. (2) Perform data synchro-nization through semes-ter reporting
5	OPZ zakat report is not very valid/ accurate.	3.5	4.6	3	2	(1) Decreases the cred-ibility of OPZ. (2) Affects OPZ repu-tation and account-ability.	(1) Carry out periodic reviews led by the Head of the Assets Division. (2) Adapt the BAZNAS and the Ministry of Reli-gious Affairs reporting standards.

Code	Identification of Reporting Risk	L	I	V	S	Impacts	Mitigations
2	Lack of professionalism in making OPZ zakat reports.	3.0	4.8	2	2	(1) Reports are less attractive. (2) Weakened obliged zakat payer trust (in the form of transparency).	(1) Create standard requirements when recruiting for OPZ accounting teams. (2) Perform benchmarking with professional institutions and participate in training held by training institutions.
8	There is no synchronization between national OPZ reports and those of branches.	3.2	4.5	3	2	(1) Communities are sceptical about OPZ reports. (2) Decline in the credibility of OPZs.	(1) Use an online-based system. (2) Conduct internal and public audits. (3) Create a Standard Operating Procedure (SOP) for institutions related to the reporting process.
4	There is a delay in delivering reports by an OPZ to its stakeholders.	3.8	3.8	3	2	Decreased OPZ credibility and public trust.	(1) Create a Standard Operating Procedure (SOP) for the timing of report submission. (2) Develop a specific data management structure, as defined in the SOP.

Recording Risk

Recording risk can be experienced by zakat institutions due to their failure to record their financial affairs internally. There are certain conditions that can lead to the emergence of this risk, for example: (i) the lengthy chain in the received funds recording system; (ii) there is no specific guidance on Sharia-based transactions from PSAK 109 that could be used by zakat institutions; (iii) the complicated centralization of zakat recording from zakat institution branches to their central office; and finally (iv) the close relationship between collecting officers (zakat administrators) and officers in the internal audit division.

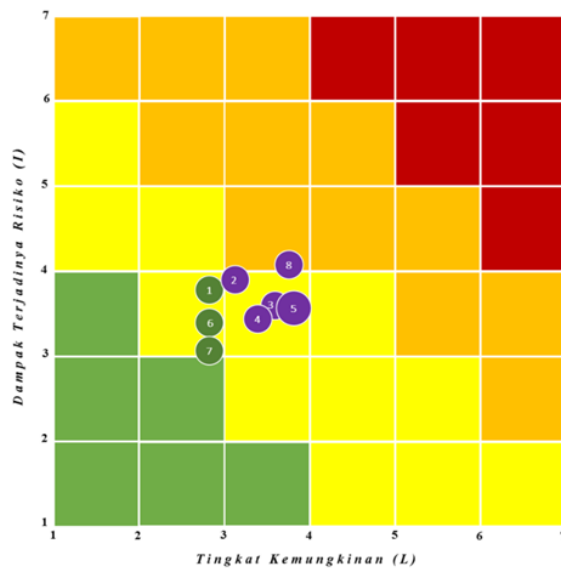


Figure 39: Heatmap of Recording Risk

Eight risks are included in the Recording Risk. According to the descriptive analysis and the questionnaire results, assessment of these risks is partly presented in Table 40.

Table 40: Prioritization of Recording Risk, Its Impacts and Mitigations

Code	Identification of Recording Risk	L	I	V	S	Impacts	Mitigations
8	Ineffectiveness of the OPZ asset and zakat fund presentation displayed separately in the financial statements.	3.8	4.1	2	2	Disturb the accountability aspects of short/medium/long term OPZ management.	(1) Present the reports according to standards (PSAK 109); (2) Adjust to zakat management guidelines and PSAK about zakat.
5	Complicated centralization of zakat recording from OPZ branches to their central office.	3.8	3.6	3	2	Less valid reports from the central OPZ; disruption to OPZ performance if the system is not solid.	(1) Create an on-line-based system. (2) Adjust to zakat management guidelines and PSAK about zakat.
3	The risk of the donor accounting method on an accrual basis.	3.6	3.6	2	2	(1) Inaccuracy in calculating zakat funds from donors. (2) Poor distribution and collection performance associated with the collection time (Ramadan).	(1) Hold reviews by supervisors or accounting experts. (2) Adjust to zakat management guidelines and PSAK about zakat.

2	The absence of guidelines on OPZ Sharia-based transactions from PSAK 109 (such as PAPS).	3.1	3.9	2	2	<p>(1) Late and less valid periodic reports from OPZs to their stakeholders.</p> <p>(2) OPZs have different standards.</p>	<p>(1) Invite experts to provide training or bring in internal teams to join relevant training sessions.</p> <p>(2) Publicize new information about government and zakat institution policies.</p>
4	There is no synchronization of accounting methods between OPZs (on a cash basis) and donors (on an accrual basis).	3.4	3.4	2	2	<p>It is costly to change the accounting method from the accrual basis to cash basis, or vice versa.</p>	<p>(1) Present the reports according to relevant standards (PSAK 109).</p> <p>(2) Adjust to zakat management guidelines and PSAK about zakat.</p>

LEGAL RISK

Legal risk emerges if there are regulatory or legal changes by the government that could threaten zakat institutions' position and their capacity to operate effectively and efficiently. There are several examples of conditions associated with legal risk in zakat institutions. First, the absence of acts or provisions that oblige Muslim adults to pay zakat. Second, zakat is not tax deductible in Indonesia. Third, the lack of government support for the implementation of existing zakat acts and provisions. Fourth, there is a weak law enforcement, as has already been stated in the acts concerning zakat. Finally, incompatibility of legal risk with local regulations.

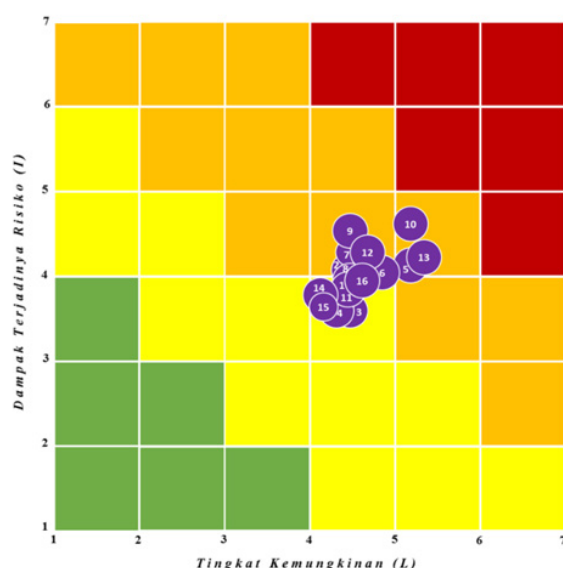


Figure 40: Heatmap of Legal Risk

Legal Risk comprises 16 risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 41.

Table 41: Prioritization of Legal Risk, Its Impacts and Mitigations

Code	Identification of Legal Risks	L	I	V	S	Impacts	Mitigations
10	Lack of government support for the implementation of zakat laws and regulations.	5.2	4.6	3	2	Less effective zakat management by OPZs.	(1) Actively participate in making suggestions about or even criticizing drafts of new law and various public tests of the latest zakat regulations. (2) Hold intense communication with zakat regulators.
13	Weak law enforcement, as already stated in the acts concerning zakat.	5.3	4.2	3	2	Weakens the reputation of OPZs.	(1) Actively coordinate with various regulator stakeholders in the framework of developing zakat regulations. (2) Obey the law by supporting government policies.
5	Acts and regulations on zakat management are ambiguous, so can have multiple interpretations	5.2	4.1	3	2	The ineffectiveness of zakat management by OPZs.	(1) Conduct various legal advocacy activities related to zakat regulation. (2) Follow existing regulations and laws
9	The existence of new acts and regulations about zakat.	4.5	4.5	3	2	Zakat management by OPZs is disrupted by adjustments to laws and regulations.	(1) Adjust implementation in the field, but without violating the existing rules and regulations. (2) Adjust to zakat law obediently.
12	Risk of political uncertainty.	4.7	4.3	3	2	Delays in the zakat management process.	(1) Strengthen the stability of organizational management. (2) Apply SWOT in the preparation of the institution annual Strategic Plan in order to identify issues. (3) Prepare risk management in responding to relevant issues

COMPLIANCE RISK

Sharia Compliance Risk

Sharia compliance risk arises as a result of disobeying Sharia laws and provisions. This risk can be caused by several reasons, including (i) lack of competency of the Sharia Advisory Council (DPS) run by zakat institutions; (ii) absence of regulations on the implementation of Sharia audit; (iii) absence of public/private audit institutions (KAP) that are authorized and/or competent to perform Sharia auditing; and (iv) the risk of workers' incomprehension of Sharia laws in all units of a zakat institution.

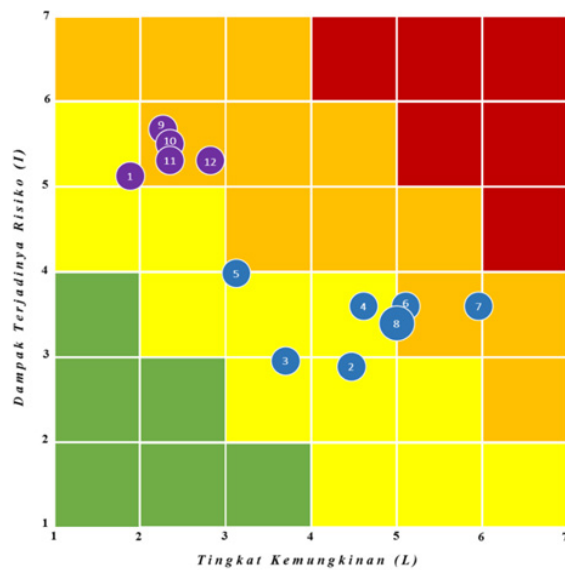


Figure 41: Heatmap of Sharia Compliance Risk

Sharia Compliance Risk consists of 12 risks. According to the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 42.

Table 42: Prioritization of Sharia Compliance Risk, Its Impacts and Mitigations

Code	Identification of Sharia Compliance Risk	L	I	V	S	Impacts	Mitigations
7	Absence of a standard Sharia audit at the national level.	6.0	3.6	2	1	The variety of Sharia provisions adopted by OPZs confuses the community.	(1) Encourage the Sharia Advisory Council (DPS) to improve its competency by using various forms of support. (2) Prepare national Sharia audit guidelines.

Code	Identification of Sharia Compliance Risk	L	I	V	S	Impacts	Mitigations
6	OPZs do not have a standard guide to internal Sharia audit.	5.1	3.6	2	1	Low OPZ Sharia compliance decreases their credibility.	(1) Standardize the orientation of the vision, mission, objectives and fiqh (Islamic jurisprudence) of Zakat, Infaq, Sadaqah, and Waqf (ZISWAF). (2) Be fair to aspects that are khilafiyah or different and do not increase the gap
8	Absence of public/private auditor institutions (KAP) that are authorized and/or competent to perform Sharia auditing.	5.0	3.4	3	1	OPZ reports have not been able to be audit-ed corresponding to Sharia laws, together with low OPZ Sharia compliance.	(1) Encourage the establishment of a National Sharia Board of Indonesian Ulama Council (DSN UI) in the field of Zakat, Infaq, Sadaqah, and Waqf (ZISWAF), similar to the National Sharia Board for the Islamic banking sector. (2) Split the tasks of public and financial audit. (3) Strengthen the compliance and internal audit divisions.
4	Absence of regulations on implementing Sharia audit.	4.6	3.6	2	1	The variety of Sharia provisions adopted by OPZs confuses the community.	Compile standard guidelines for internal Sharia compliance as a basis for organizational performance.
12	Zakat administrators who work in distribution lack understanding of Sharia and fiqh (Islamic jurisprudence) related to zakat.	2.8	5.3	2	2	The distribution of zakat can violate Sharia provisions.	Develop Sharia guidelines for zakat management; improve the competency of zakat administrators; hold regular training on Sharia compliance; develop an assessment program for zakat administrators related to Sharia and fiqh (Islamic jurisprudence).

Regulatory Compliance Risk

Regulatory compliance risk arises as a consequence of disobeying the regulations and provisions that have been set by the regulators. This risk can emerge due to (i) all units of a zakat institution not fully understanding zakat regulations; (ii) a zakat institution (LAZ) only being allowed to have one representative in each province; (iii) the absence

of BAZNAS supervisory tools; (iv) two authorities regulating zakat in Indonesia, namely BAZNAS and the Ministry of Religious Affairs; and (v) BAZNAS playing the double role of regulator and operator.

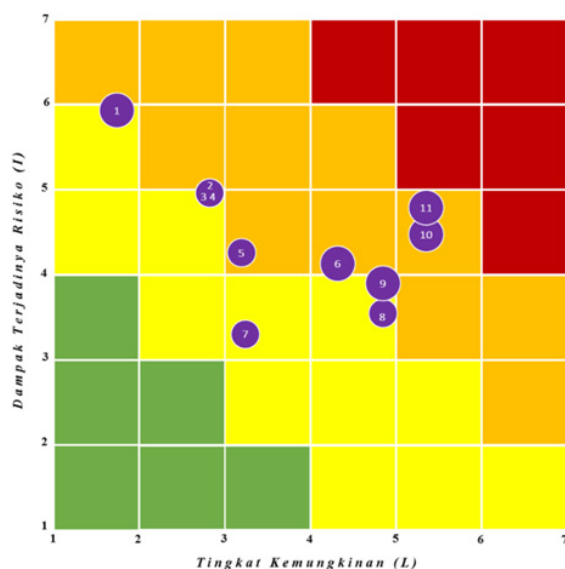


Figure 42: Heatmap of Regulatory Compliance Risk

Regulatory Compliance Risk comprises 11 risks. Based on the descriptive analysis and the questionnaire results, assessment of these risks is partly shown in Table 43.

Table 43: Prioritization of Regulatory Compliance Risk, Its Impacts and Mitigations

Code	Identification of Regulation Compliance Risk	L	I	V	S	Impacts	Mitigations
11	BAZNAS plays a dual role as regulator and operator.	5.4	4.8	3	2	(1) OPZ is not free to implement the program because it is hampered by policies that favor BAZNAS' (2) Superbody, conflict of interest.	(1) Encourage the role of BAZNAS of coordinating the management of national zakat and not merely acting as an operator. BAZNAS should also play the role of spreading the zakat movement. (2) Internally improve professional performance.
10	There are two zakat authorities in Indonesia: BAZNAS and the the Ministry of Religious Affairs.	5.4	4.5	3	2	(1) There is a disharmonious relationship between BAZNAS and the Ministry of Religious Affairs, with the existence of a conflict of interest. (2) Ambiguity of command and authority.	(1) Establish coordination and communication with both parties that are oriented towards maslaha (public interest). (2) Encourage intensive communication between BAZNAS and the Ministry of Religious Affairs.

Code	Identification of Regulation Compliance Risk	L	I	V	S	Impacts	Mitigations
9	The absence of BAZNAS supervisory tool	4.9	3.9	3	2	(1) The enforcement of rules and supervision is not carried out well. (2) There is a risk to the operational supervision of zakat management.	(1) Together with related parties, encourage the development of surveillance tools. (2) Encourage intensive communication with BAZNAS. (3) Encourage BAZNAS to issue a guide module on zakat management.
6	National OPZs are only allowed to have one representative in each province.	4.3	4.1	3	2	(1) The adjustment process is slow and zakat management is disrupted. (2) OPZ expansion is limited, and zakat management is not optimal.	Make adjustments in the field, but without violating laws and regulations.
8	All informal zakat managers, such as the Mosque Prosperity Board (DKM Masjid), have to be the OPZ of BAZNAS or of MPZ.	4.9	3.5	2	2	(1) Zakat management by OPZs is disrupted. (2) Legal formal of all zakat management institutions.	(1) Allow informal zakat managers to become MPZ as long as this does not violate applicable laws and regulations. (2) Conduct socialization related to zakat regulation. (3) Strengthen communication and synergy in managing zakat funds.

SUMMARY OF ZAKAT INSTITUTION RISK

Overall, risk to zakat institutions can be grouped into five risk categories, namely: strategic, educational, operational, reporting and compliance. These categories can be broken down into eleven types of risk, and further elaborated into 36 risk sub-categories, with a total of 405 risks identified (see table 40).

These 405 risks can be categorized into 31 extreme risks (7.7%), 193 high risks (47.7%), 162 moderate risks (40.0%) and 19 low risks (4.7%). Therefore, more than half of the risks identified in zakat institutions are classified as high or extreme. For this reason, risk management practices in zakat institutions are becoming essential.

The greatest number of risks are in the sub-types of Zakat Administrator Governance Risk (27 risks), Objective Risk (21), Vision and Mission Risk, (19) Volunteer Management Risk (18), and Internal Education Risk (17). Therefore, the two most prevalent types of

risk are Zakat Administrator Governance and Volunteer Management Risk, and Strategic Risk, which must consequently receive more attention.

Most of the 'extreme' risk levels are in External Education Risk (13 out of 16, or 81%), Reputation Risk (3 out of 6, or 50%), Competition Risk (2 out of 5, or 40%), Internal Education Risk (4 out of 17, or 24%), and Vision and Mission Risk (4 out of 19, or 21%). The types of education risk show the most extreme risk levels. All of these extreme risk sub-types must be given primary attention by zakat institutions.

Table 44: Summary of Zakat Institution Risk

No	Type of Risk	Risk Identification	Number of Risk	Degree of Risk			
				Extreme	High	Moderate	Low
1	Strategic Risk	Vision and Mission Risk	19	4	11	4	
2		Objective Risk	21	3	18		
3		Reputation Risk	6	3	3		
4	Zakat Institution Corporatization Risk		3		2	1	
5	Education Risk	External Education Risk	16	13	3		
6		Internal Education Risk	17	4	12	1	
7	Operational Risk	Collection Fund Risk	11		2	7	2
8		Productive Fund Risk	9			9	
9		Distribution Fund Risk	7			7	
10		Collection Risk	8		5	3	
11		Fund Management Risk	12		3	8	1
12		Distribution Risk	11		1	2	8
13		Network Infrastructure/IT Risk	10		6	4	
14		Cooperation Risk	11			11	
15		Program Development Risk	14		3	11	
16		Leadership Risk	16		6	10	
17		Competition Risk	5	2	3		
18		Crime/Fraud Risk	12		4	7	1

19	Property Risk	Human Risk	13		6	6	1
20		Economic Risk	9		4	5	
21		Natural Disasters Risk	12		3	9	
22	Amil and Volunteer Risk	Amil Governance Risk	27	1	22	4	
23		Volunteer Management Risk	18	1	15	2	
24	Risk of Muzaki and Mustahik	Muzaki Risk	4		3	1	
25		Loss of Muzaki Risk	13		10	3	
26		Muzaki Satisfaction Risk	7		2	5	
27		Mustahik Risk	5		1	2	2
28		Loss of Mustahik Risk	9		2	4	3
29		Mustahik Satisfaction Risk	6			6	
30		Ethics Code Risk	5		1	3	1
31	International Zakat Transfer Risk		10		3	7	
32	Recording and Reporting Risks	Reporting Risk	12		6	6	
33		Recording Risk	8		2	6	
34	Legal Risk		16		12	4	
35	Compliance Risk	Sharia Compliance Risk	12		9	3	
36		Regulatory Compliance Risk	11		10	1	
	TOTAL		405	31	193	162	19

The most common 'high' risk levels are in Regulatory Compliance Risk (10 out of 11, or 91%), Objective Risk (18 out of 21, or 86%), Volunteer Management Risk (15 out of 18, or 83%), Zakat Administrator Governance Risk (22 out of 27, or 81%), and Loss of Obligated Zakat Payers Risk (10 out of 13, or 77%). All these high-risk sub-types must also be given extra attention by zakat institutions.

5



FUTURE POTENTIAL AND CHALLENGES OF ZAKAT INSTITUTIONS



DIRECTIONS OF RISK MANAGEMENT DEVELOPMENT IN ZAKAT INSTITUTIONS

Risk management is a rapidly growing discipline. In a short time, there have been various views and descriptions of its nature and purpose. A rising concern in risk management is the effect of positive responses from a more complex business process in zakat institutions. Risk management not only being applied in commercial and public institutions, but also in social institutions, such as zakat organizations. Risk management in an approach which is becoming more important in areas facing vulnerability, uncertainty, complexity and ambiguity, which is the case with zakat institutions.

It is used to determine how to avoid or reduce the impact of certain events and is nowadays often employed in the fields of safety, insurance, banking, investment, medicine, technology, public policy analysis and internal supervision, as well as in non-profit organizations. Along with the development of the business world, risk management is being applied by corporations since their business opportunities and challenges are also becoming more exacting. The stability and sustainability of a company will depend heavily on the foresight of its executives in seeing opportunities, and their thoughtfulness in managing any risk faced. Risk management is also related to Good Corporate Governance (GCG) practice. The principle of transparency in GCG requires the implementation of enterprise-wide risk management, whose other functions include identifying risks appropriately and determining effective and efficient risk control strategies.

In Indonesia, the developing phase of risk management, especially that of philanthropy and public institutions, is becoming an interesting topic, since it has considerable potential. Through its task force, the Financial and Development Supervisory Agency (BPKP) is developing general guidelines and risk assessments for public sector institutions. To improve supervision, developed countries have adopted a risk-based audit approach. However, in the zakat management area, it has been a great concern. Zakat practitioners have been searching for the right tools and formats to deal with the risks involved in zakat management practices.

Although lagging behind Islamic commercial finance, Islamic social finance, especially zakat, is beginning to catch up with the issuance of Zakat Core Principles (ZCP), which also include the basic principles of zakat risk management. Recently, Technical Risk Management Notes for Zakat Institutions have also been prepared as a reference for zakat institutions in managing the risks faced. In the future, zakat institutions will inevitably need to develop their own risk management system, with a separate risk management office managed professionally. This risk management system should play an important role in managing the risk of zakat institutions in achieving their goals on an ongoing basis.

ZAKAT INSTITUTIONS AS AN EXAMPLE OF THE REAL IMPLEMENTATION OF RISK MANAGEMENT

Zakat institutions, as Islamic social financial institutions (ISFI - Islamic Social Financial Institutions – LKSI - Lembaga Keuangan Sosial Islam) have unique and different risks to those of Islamic commercial financial institutions (ICFI - Islamic Commercial Financial Institutions - LKKI - Lembaga Keuangan Komersial Islam), and must be managed properly at every level of a zakat institution, from the individual, through to the regional and national. BAZNAS has been mandated to conduct the management of zakat in Indonesia by involving regional BAZNAS and LAZ and the government in its regulation and policy support.

With this dual role of BAZNAS, namely as coordinator and operator, it has the strategic task to evaluate and control the rhythm of zakat management. This task has recently led to discussions which appear to have resulted in positive effects on improving the quality of zakat management and strengthening the synergies between OPZs in Indonesia. In terms of the collection process, for example, as led by BAZNAS, OPZs can synergize with each other through a mapping effort and strengthen the coverage of zakat collection, while at the same time collaborating in the mitigation of collection risks.

The individual level of zakat institutions consists of BAZNAS, LAZNAS, BAZNAS Province/City, LAZ Province/City and UPZ, and MPZs can implement risk management in accordance with their respective roles and scope. At the regional level, OPZs or IZs can cooperate in managing common risks faced in their area, which can be coordinated by BAZNAS Province/City and/or the local FOZ. At the national level, BAZNAS can be a conductor and coordinator in synergizing and managing common risks faced by OPZs or IZs nationally, so that these risks can be mitigated effectively and efficiently.

The risk mitigation target must be well mapped, with diverse targets and segments, including community self-help groups. In terms of distribution and utilization, OPZs play a strategic role in the management process of risk evaluation and mitigation in order to achieve the objectives of effective and efficient zakat distribution according to the mandate of the law. Harmonization and synchronization of the risk mitigation of the distribution process should be effectively conducted amongst OPZs, from the central to the regional level. Implementation of risk management at the individual level of IZ, and the regional and national levels, can be made step by step, beginning from the most extreme risk, and continuing to high and moderate risk.

POTENTIAL DEVELOPMENT OF ZAKAT INSTITUTIONS IN INDONESIA

According to the Indonesian Zakat Outlook data from 2017, the collection of Zakat, Infaq and Sadaqah (ZIS) funds in Indonesia increased consistently from 2002 to 2015, as illustrated in Graph 43.

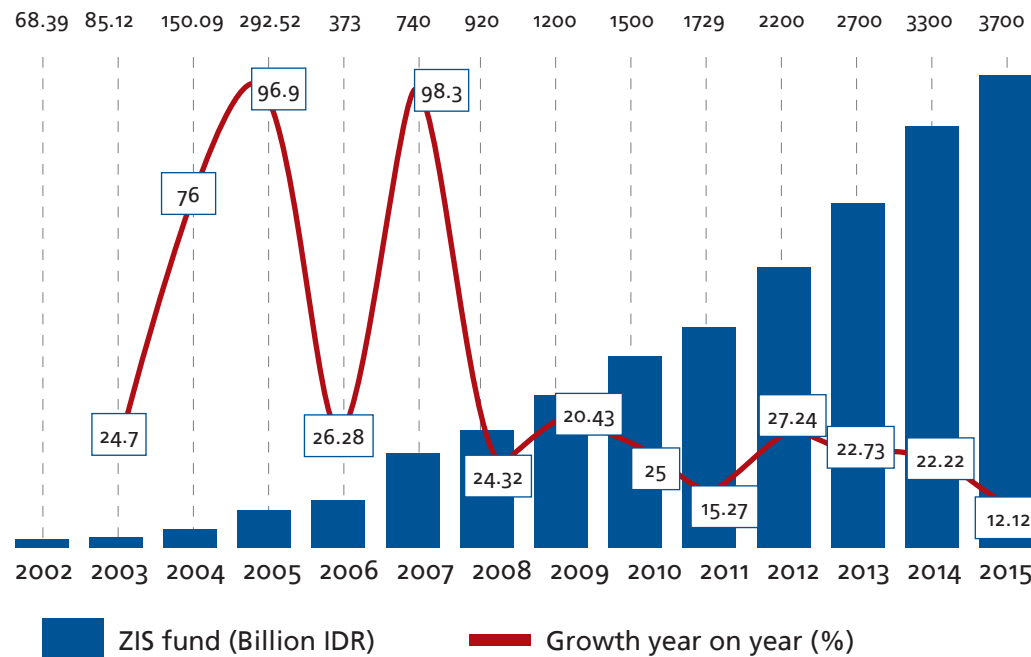


Figure 43: Total ZIS Fund Collection in Indonesia

The total growth of ZIS fund collection for the 13 years since BAZNAS was established is 5310.15%, with an average growth of 38.58%. The biggest increases occurred in 2005 and 2007, at 96.90% and 98.30% respectively. Based on the outlook data, this was due to the public response to the tsunami natural disaster in Aceh and the earthquake in Yogyakarta. However, such high growth is only temporary; for example, growth of 15.27%, 22.22% and 12.12% was recorded in 2011, 2014 and 2015 respectively. Such trends indicate that there are fluctuations in public trust and awareness of paying their Zakat, Infaq and Sadaqah (ZIS) through OPZ institutions in Indonesia. This kind of growth gives us a vision of the needs of risk mitigation in a growing zakat sector.

The total amount of ZIS and DSKL funds collected by OPZs nationally was IDR 3.65 trillion, with a total fund disbursement of IDR 2.25 trillion. In 2016, the amount of ZIS and DSKL funds raised by OPZs nationally increased by IDR 5 trillion, with total fund disbursement of IDR 2.25 trillion. In the past five years, the accumulated funds have continued to increase, even though the proportion of each OPZ's collection is different.

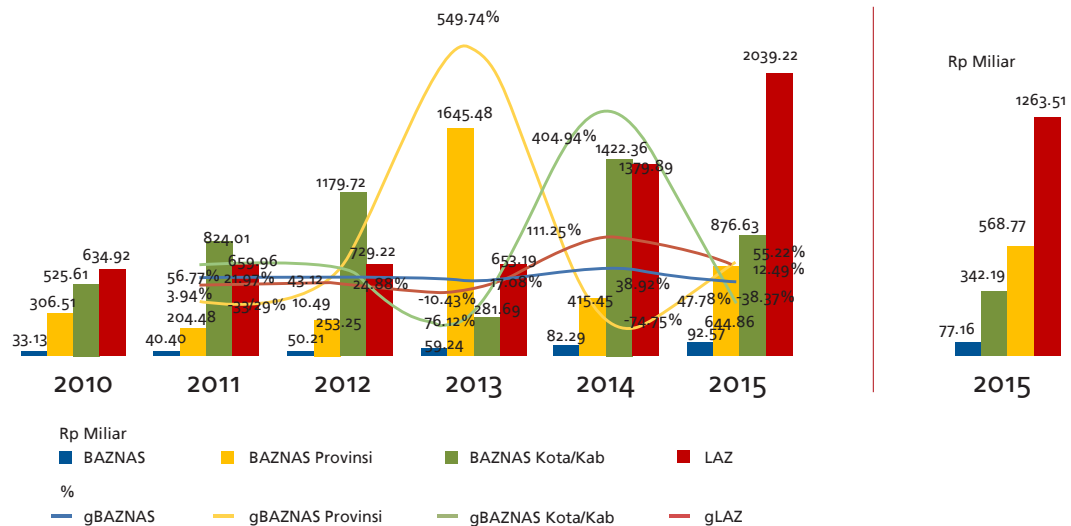


Figure 44: Collection (left) and Distribution (right) of Fund based on Zakat Institution

Each OPZ has experienced very volatile zakat fund growth over the past five years. Zakat funds obtained from BAZNAS and LAZ experienced increases in 2012 and 2014, with average growth of 23.12% and 32.61% respectively. Provincial BAZNAS collected funds increased in 2012, 2013 and 2015, with an average growth of 104.15%, while funds collected by Regency/City BAZNAS experienced an increase only in 2014, with an average growth of 78.08%.

In general, the proportion of zakat funds collected from each OPZ compared to the collection of national zakat funds varies. In 2015, the OPZ which managed to collect the highest ZIS funds was LAZ, which collected a total IDR 2,039.22 billion and distributed IDR 1,263.51 billion. BAZNAS Regency/City collected ZIS funds to the amount of IDR 876.63 billion and distributed IDR 568.77 billion. The collection and distribution of ZIS funds by the Provincial BAZNAS amounted to IDR 644.86 billion, with IDR 342.19 billion distributed. Finally, the collection and distribution of ZIS funds by the central BAZNAS were IDR 92.57 billion and IDR. 77.16 billion respectively.

Based on the statistical data from BAZNAS (2016, in the Indonesian Zakat Outlook, 2017), data on the distribution of zakat funds given to the poor and needy became one unit of legitimate recipients (asnaf). This was because both groups are usually in the same environment. Meanwhile, the allocation of zakat funds designated by zakat administrators constituted as much as one-eighth of the total collection of zakat funds in each OPZ.

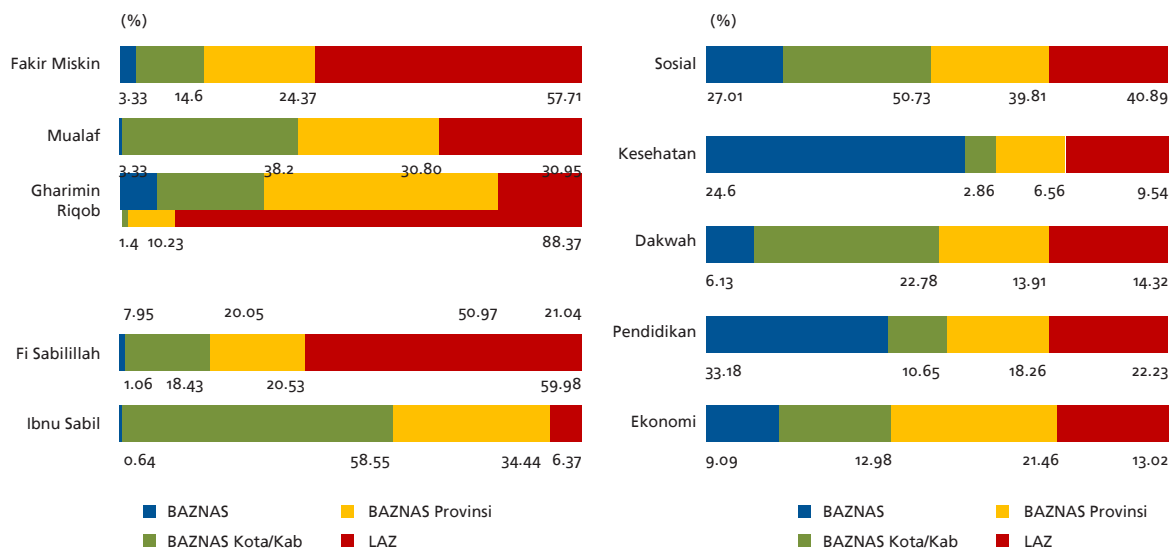


Figure 45: Proportion of Zakat Distribution based on Proper recipients of zakat (left) and Distribution Sector (right) of Each Zakat Institution

With regard to the distribution of zakat funds in 2015, based on figure 45 (left) LAZ contributed the highest amount to lawful recipients, especially the poor and the needy (al-Fuqara and al-Masakin), slaves to be liberated (Riqab), and those who strive in the cause of Allah (fi sabilillah), amounting to 57.71%, 88.7% and 59.98% of the total zakat funds received by each legitimate recipient (asnaf). People in debt (gharimin) received most of the zakat funds from the Regency/City BAZNAS, amounting to 50.97% of the total distribution for the group. The funds for those striving in the cause of Allah (fi sabilillah) were mostly distributed by the Provincial BAZNAS, with a total of 58.55%. Meanwhile, zakat distributed to those who have recently embraced Islam, the converts (muallaf), by Provincial BAZNAS, LAZ, and Regency/City of BAZNAS was fairly similar, at 38.20%, 30.95% and 30.80% of the total zakat funds received by that group respectively.

In relation to the distribution of zakat based on sector (see figure 45, right), funds were distributed to several sectors, namely the economic, education, and preaching and sharing knowledge of Islam (da'wah), and for health and social purposes. Provincial BAZNAS, LAZ, and Regency/City BAZNAS allocated most of their zakat funds to the social sector, with allocations of 50.73%, 40.89%, and 39.81% respectively. The highest allocation of zakat funds by BAZNAS was in the education sector, at 33.18%.

CHALLENGES TO ZAKAT INSTITUTIONS IN INDONESIA

At present, the implementation of Act Number 23 Year 2011 has entered its seventh year, hence it is necessary to make more responsive actions and evaluation by identifying the common issues of zakat management in Indonesia.

This is needed in order to reach an optimal state of zakat management practice, which to date has still had to cope with various challenges, as discussed below.

Human Resources (HR)

In the scope of zakat management, human resources include zakat administrators and other parties who play a role in managing zakat funds. Administrators play a very important role in determining the success of the zakat management process. The development of zakat institutions will be constrained if it is handled by zakat administrators who do not give their best, are not dedicated and do not have a good quality of work. Recently, the assumption that the zakat administrator profession is the last option for job seekers seems to have begun to disappear, as proven by the zakat administrator recruitment process, which has received a very positive response from qualified college alumni.

Epistemologically, being a zakat administrator is an honorable profession, and the only profession that is explicitly mentioned in the Al-Qur'an. One of the biggest tasks is to connect the obliged zakat payers to be able to channel and purify their wealth for the lawful recipients, as well as to utilize the funds in real terms so that they can have an impact on the welfare of the lawful recipients. Therefore, the profession may no longer be done on a part-time basis, as it needs to be done full-time.

One of the efforts of the National Zakat Agency (BAZNAS) in mitigating the risks of human resources is to apply the standardization and certification process of zakat administrators through the Professional Certification Institute (LSP) formed by BAZNAS. On the other hand, there is a dilemma. In reality, a zakat institution requires a large number of human resources, but at the same time it must maintain a certain level of efficiency. It is a challenge for zakat institutions to achieve the best formation by maintaining a balance between human resource needs and efficiency.

Currently, the tough challenge for the National Board of Zakat (BAZNAS) is how, with all the limitations of coordination authority, it can standardize the strength of human resources and manage the quality gap of zakat administrators. At the Provincial and Regency/City level of BAZNAS, each zakat administrator has different levels of understanding, education and socio-economic life.

Quality of Reported Data

Through Act Number 23 Year 2011, OPZs have been mandated to decentralize their fund distribution and centralize their reporting processes. The decentralization process of zakat distribution means that the distribution of zakat should be fair and inclusive for all lawful recipients in Indonesia, while the process of centralizing reports has the purpose of supporting the BAZNAS supervisory role in all zakat institutions. This mandate needs all zakat management processes to be reported to the Central BAZNAS. However, there

are still delays in delivering these reports, which is a challenge to be solved through an adequate system in order to avoid any risk to public trust.

According to the Centre for Strategic Study of the National Board of Zakat (Puskas BAZNAS) in their book on National Zakat Performance Evaluation, the majority of zakat institutional stakeholders in Indonesia still face the problem of poor report quality, as well as issues with the lawful recipient database. Consequently, this is a challenge that needs to be prioritized in the following stage. Hopefully, this will enhance transparency and public trust in zakat institutions, meaning public awareness of paying zakat through its institutions will also increase.

Regulatory Support

Zakat management in Indonesia is currently facing a minimal realization of zakat collection compared to the amount of potential zakat mapped. In 2016, this realization was around IDR 5.02 trillion, an amount which is still far from the potential calculated by Firdaus et.al (2010) of IDR 217 trillion.

Based on discussions and a review of existing regulations, there are several steps that can be taken to maximize the amount of zakat collection in the future. First, zakat could be tax deductible, as has been practiced in Malaysia since 2002. In Indonesia, the regulations still treat zakat as an incentive expense for reducing an individual's total taxable income. The Law of Zakat Management has given the authority that zakat paid through an official OPZ can be used as an instrument to reduce taxes at the stage of Taxable Income (PKP). Before this policy is formally proposed to the government, it should be an important research topic that needs to be discussed with all stakeholders involved in zakat management regulation. If this proposed idea becomes reality, revision would be needed to Act Number 23 Year 2011 and to the laws that regulate tax.

Second, to date the existing zakat regulations do not impose any sanctions on obliged zakat payers. This situation must be tackled the Ministry of Religious Affairs in order to increase the number of Muslims who pay zakat (obliged zakat payers) inclusively and nationally. One idea is a compulsory zakat card which can be used as one of the hajj registration requirements.

Traditional Amil

In the constitution, or the regulations of the Ministry of Religious Affairs, there is no term for traditional amil. They are referred to as a group of people, associations of Muslim figures or ulema, or mosque caretakers/takmir in a community or area which has not been reached by BAZ or LAZ, who have notified their zakat management activities to the authorized officials, and who conduct such activities. Many Muslims still pay their zakat through ulema or well-known Muslim figures in their area because of their trust and respect of that person. In fact, this tradition was known in Islamic society long before

Indonesia's independence.

In addition, besides the ulema or Kyai, mosques and madrasas (Islamic schools) also practice the zakat administrator function, especially during the month of Ramadan. Although implementation is performed collectively, this type of zakat administrator is also considered to be traditional. This categorization is based on the non-fulfillment of conditions as zakat administrators appointed by the government. Traditional zakat administrators are also found in the Mosque Prosperity Council (DKM), general school and madrasah foundations, and Islamic religious groups in hospitals and private companies.

Based on this fact in the field, the management of zakat should be based not only on Sharia provisions, but should also include aspects of legality, accountability and supervisory systems. Referring to Articles 38 and 41 of Act Number 23 Year 2011 concerning the management of zakat, a zakat administrator, either in the form of an individual or an institution, who does not have a permit from an authorized official, can be taken to court. This emphasizes the spirit of discipline, accountability and transparency of zakat managers. Nevertheless, in some areas that are not reachable by BAZNAS or LAZNAS, it is permissible to manage zakat funds by informing the authorized institutions. This exemption is based on the Constitutional Court provision of the Judicial Review of Act Number 23 Year 2011 concerning zakat management, which allows a traditional zakat administrator (individual or group of people) to manage zakat in the corresponding area.

Hence, various solutions are proposed to synergize the potential of Muslim communities (ummah):

- a. Establishment of a Zakat Institutions Pattern. Traditional zakat administrators can apply to become a legitimate zakat institution at any level, be it national, provincial or even district and city.
- b. Subordination Pattern. Traditional zakat administrators can be subordinated by becoming a Zakat Collection Unit (UPZ) for an official zakat institution.
- c. Partnership Pattern. Traditional zakat administrators can become partners by channeling the zakat funds collected to the official zakat institution.

Table 45: Transition Pattern of Traditional Amil

Solution	Institution	Personal
Establishment Pattern	√	-
Subordination Pattern	√	-
Partnership Pattern	√	√

Source: Author

BAZNAS and LAZ Harmonization

Act Number 23 Year 2011 states that the zakat institution (LAZ) is an NGO or private institution established by the community. In completing its zakat management function, the LAZ is subject to the coordination of the Central BAZNAS, although coordination between these types of zakat institution is a challenge. The problem lies in how this synergy will ensure that zakat management programs have a significant effect on poverty alleviation and community welfare in Indonesia. Hopefully, the pattern of zakat movement in Indonesia will be regarded as the most professional and trusted zakat management practice in the world, as proposed in the 2015-2020 BAZNAS vision.

Synergy must always be present in the process of collecting and distributing zakat funds. Even though the two types of OPZ have varying models, both are still subject to the coordination of BAZNAS. In the case of fund collection, each OPZ cooperates on how they can all achieve the national collection targets determined in the agreements made. Similarly, in the distribution process, each OPZ collaborates so they can all reach the national targeted number of lawful recipients. Although in its implementation each OPZ has a different type of distribution program, they still operate under the coordination of BAZNAS in the fields of the economy, education, health, humanity, and study of Islam/advocacy.

Zakat Institutions and Money Laundering

Increasing crime in the economic and financial world means zakat institutions need to be involved in the matter either directly or indirectly. As a socio-economic organization, a zakat institution can be used as a target to channel illegal funds, usually referred to as money laundering.

In Islam, mention has been made of this. For example, as the Prophet said:

لَا يَقْبَلُ اللَّهُ صَلَاةً بِغَيْرِ طَهْوٍ وَلَا صَدَقَةً مِنْ غُلُولٍ" رواه مسلم

Meaning : Allah does not accept any prayers without purification, nor charity which comes from goods acquired by embezzlement (Sahih al-Bukhari).

The possibility of making zakat payments as an excuse of money laundering occurs through deposits and transfers into zakat institution bank accounts from unverified persons. It can also occur with the use of international transfers.

The risk that could arise is if there is a suspicious transfer into the bank accounts of zakat institutions, they can be blocked and their operational activities stopped. The institution can reopen the account after obtaining confirmation from the bank authori-

ties. In addition, if the institution wants to open a new account, the bank will investigate the institution more intensively. Thus legal risk, operational risk and reputation risk arise inherently from this situation.

Preventative provisions against money laundering have been issued in the form of a regulation, namely Act Number 15 Year 2002, updated by Act Number 8 Year 2010 concerning Anti Money Laundering and Prevention of Financing Terrorism. In addition, corresponding provisions for various institutions have been issued by authorized institutions: for commercial banks, rural banks (BPR), and non-bank financial institutions by Bank Indonesia and the Financial Services Authority (OJK), and for Non-Bank Foreign Exchange Activities (KUPVA BB) by Bank Indonesia. This kind of provision has not been put in place for zakat institutions, even though they accept zakat payment via cash payments personally at offices, outlets or counters. The existence of preventive provisions for money laundering practices would reduce the risks that might occur in zakat institutions.

RECOMMENDATIONS

To maintain their sustainability, zakat institutions need to be managed professionally. They must have proper risk management, as stipulated in the document agreed by zakat institutions all over the world. The agreement was reached in the Zakat Core Principles (ZCP), mainly ZCP points 11-14 about risk management of zakat funds. Although zakat institutions are Islamic socio-financial organizations, their management, including risk management, must be handled properly, governed in accordance with international best practices.

Zakat authorities can use this book as a reference when designing “Standard Risk Management of Zakat Institutions” in accordance with “ZCP” and “Technical Notes on Risk Management for Zakat Institutions”, adjusted to the general characteristics of OPZs in Indonesia. The risk management standard includes minimum mitigation that must be undertaken by zakat institutions, especially for risks that are classified as extreme or high.

Advanced zakat institutions can use this book as a reference for designing their specific zakat risk management, to which some adjustments may be necessary due to their particular characteristics. Since each area has its own special traits which may be different from other areas, this adjustment is essential when designing risk management standards.

Zakat institutions that are not advanced enough, and as yet do not have the ability to design their own risk management standards, can use this book directly. It is a guide for managing risk, with most risks being general ones which occur in zakat institutions. In addition, a zakat institution must also be aware of the typical risks that are possible in their area, but which are not included in common risk.

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APPENDICES



Identification of Vision and Mission Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	The vision and mission of the OPZ are too ideal.	3.6	3.4	2	2	Less realistic; amil over-burdened; credibility of the OPZ declines.	Review and rearrange the vision and mission of the OPZ; be consistent and committed in the process of internal control.
2	The vision and mission of the OPZ are too general.	3.6	3.4	2	2	The OPZ performance will be less outstanding. Its credibility will be average.	Redevelop the vision and mission of the OPZ; be consistent and committed for the sake of OPZ development.
3	The vision and mission of the OPZ are too simple.	3.6	3.4	2	2	The OPZ will be less developed and its credibility will be low.	Redevelop the vision and mission of the OPZ; be consistent and committed for the sake of OPZ development.
4	The vision and mission of the OPZ do not exist.	3.6	3.4	2	2	The objectives and work program of the OPZ become less directed.	Redevelop the vision and mission of the OPZ; be consistent and committed for the sake of OPZ development.
5	The vision and mission of the OPZ are excessive and out of focus.	3.9	4.7	3	2	The OPZ will not possible to accomplish all the tasks; amil are over-burdened; the objectives are not achieved; reduced OPZ credibility.	Review the strategic plan; review and rearrange the objectives of the OPZ; be consistent and committed in the process of internal control.
6	The vision and mission of the OPZ are not clear.	3.8	5.3	4	2	Confusion for management and zakat administrators; the objectives and working program are unclear.	Control the development of the vision and mission; review and rearrange the vision and mission of the OPZ; review and test to the stakeholders.
7	The objectives are only treated as lip service.	3.5	6.2	2	2	The OPZ does not have guidelines for the direction of its working programs.	Review the strategic plan; review and rearrange the objectives of the OPZ; be consistent and committed in the process of internal control.
8	The vision and mission of the OPZ cannot be well-understood by the public.	5.1	3.7	2	2	Confusion and reduced public trust.	Review the strategic plan; review and rearrange the objectives of the OPZ; be consistent and committed in the process of internal control.
9	The OPZ is not able to control its vision and mission.	3.3	4.7	3	2	Possibility of low achievement; zakat administrators unable to achieve much; reduction in the credibility of the OPZ.	Review the strategic plan; review and rearrange the objectives of the OPZ; be consistent and committed in the process of internal control.
10	There is no indicator of vision and mission accomplishment.	4.9	4.6	3	2	There is a mismatch between estimated achievement and reality, which can lead to unintended directions.	Review the strategic plan regularly and systematically, including the process of measuring vision and mission accomplishment.

Identification of Vision and Mission Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
11	The measuring instrument has not been effective in measuring the achievement of the vision and mission.	5.3	4.7	3	2	There is a mismatch between estimated achievement and reality, which can lead to unintended directions.	Regularly review the measurement standards, such as ISO; public finance audit by public accountants and Sharia audit by the Ministry of Religious Affairs; the capacity of the branches; representatives; and zakat administrator competency matrix, and review the board of foundation management.
12	Qualitative/quantitative missions are difficult to measure.	4.9	4.8	3	2	The OPZ is unable to know the level of achievement of its mission; the objectives and working program are not directed.	Regularly review the measurement standards, such as ISO; public finance audit by public accountants and Sharia audit by the Ministry of Religious Affairs; the capacity of the branches; representatives; and zakat administrator competency matrix, and review the board of foundation management.
13	The organization's mission is not in line with its vision.	2.3	5.1	3	2	Leads to unintended directions; the objectives and working program are less directed.	Be consistent and committed in the process of internal management; participation of all stakeholders.
14	There is no direct connection between the Key Performance Indicators and the achievement of the OPZ's vision and mission.	3.4	5.2	3	2	Zakat administrators do not work whole-heartedly to achieve the vision and mission.	Review and recompile the Key Performance Indicators according to the vision and mission; Elaborate the vision and mission into the Key Performance Indicators before drafting the Activities Plan and Annual Budget (RKAT); regular performance audit and evaluation.
15	Zakat administrators do not understand/appreciate their vision and mission.	4.3	5.9	3	2	Low zakat administrator dedication; inefficient resources in the long-term.	Elaborate the vision and mission into the Key Performance Indicators before drafting the Activities Plan and Annual Budget (RKAT); hold regular and structured training for zakat administrators.
16	The community does not understand the OPZ and what it does to achieve its vision and mission.	5.5	5.3	4	2	The community shows less concern about the OPZ; reduced public trust; inhibited OPZ development.	Perform widespread, regular and structured socializations in the wider community; conduct OPZ program and feedback surveys.

Identification of Vision and Mission Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
17	Absence of a 'health' level of OPZ.	5.0	5.9	4	2	Lack of OPZ awareness of its 'health' condition; failure to give good performance; harm done to the community.	Review the strategic plan regularly and systematically, including the process of measuring the OPZ 'health' level.
18	The OPZ has not become a professional and trusted zakat institution.	4.8	6.0	3	2	The OPZ has not yet become the choice of the community to pay zakat; reduced public trust.	Implement good management; actualize the GAG; make improvements to the service quality standards that have been set.
19	The OPZ has not been able to inspire people to do good deeds.	4.5	5.1	3	2	Zakat administrators are over-burdened; inhibits the achievement of the vision and mission.	Innovative utilization programs; monitor and review the programs; program evaluation.

Identification of Objective Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	The objectives are too ideal.	3.3	4.1	2	2	Less realistic; zakat administrators are over-burdened; the objectives are not achieved; decline in the credibility of the OPZ.	Review the strategic plan; review and rearrange the objectives of the OPZ; be consistent and committed in the process of internal audit.
2	The objectives are too general.	3.3	4.1	2	2	The OPZ is less prominent. Its credibility is only average.	Redevelop the vision and mission of the OPZ; be consistent and committed for the sake of OPZ development.
3	The objectives are too simple.	3.3	4.1	2	2	The OPZ is less developed. Its credibility is low.	Redevelop the vision and mission of the OPZ; be consistent and committed for the sake of OPZ development.
4	Absence of OPZ objectives.	3.3	4.1	2	2	The objectives and working programs become less directed.	Redevelop the vision and mission of the OPZ; be consistent and committed for the sake of OPZ development.
5	The objectives are too numerous and out of focus.	3.3	4.5	3	2	The OPZ is not possible to achieve all the tasks; zakat administrators are over-burdened; the objectives are not achieved; decline in OPZ credibility.	Review the strategic plan; review and rearrange the objectives of the OPZ; be consistent and committed in the process of internal audit.

Identification of Objective Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
8	The public cannot understand the OPZ messages/intentions from the objectives.	4.8	4.2	3	2	Confusion and reduced public trust.	Review the strategic plan; review and rearrange the objectives of the OPZ; be consistent and committed in the process of internal audit.
9	The objectives are beyond the control of the OPZ.	3.3	5.1	3	2	The possibility of achievement is low; zakat administrators unable to do much; decline in the credibility of the OPZ.	Review the strategic plan; review and rearrange the objectives of the OPZ; be consistent and committed in the process of internal audit.
10	The absence of measuring instruments in achieving the objectives.	3.6	4.3	3	2	There is a mismatch between the estimated achievement and reality, which can lead to unintended directions.	Review the strategic plan regularly and systematically, including the measurement process for achieving OPZ objectives.
11	Any measuring instruments have been ineffective in measuring the achievement of objectives.	4.0	3.8	3	2	There is a mismatch between the estimated achievement and reality, which can lead to unintended directions.	Regularly review the measurement standards such as ISO, public finance audit by public accountants and Sharia audit by the Ministry of Religious Affairs.
12	Qualitative/quantitative objectives are difficult to measure.	4.2	4.0	3	2	The OPZ cannot identify the level of objective achievement; the working programs are not directed.	Evaluate the strategic plans; review and rearrange the OPZ objectives; be consistent and committed in the internal control process.
13	The organization's objectives are less/not in line with its mission.	2.3	5.0	2	2	Leads to unintended directions; objectives and working program become less directed.	Evaluate the strategic plans; review and rearrange the OPZ objectives; be consistent and committed in the internal control process.
14	Working programs are less/not in line with the objectives.	2.3	5.4	2	2	The working programs are not directed; the objectives are not achieved.	Evaluate the strategic plans; review and rearrange the OPZ objectives; be consistent and committed in the internal control process.
15	There is no direct connection between Key Performance Indicators and the achievement of OPZ objectives.	4.0	5.5	3	2	Zakat administrators do not wholeheartedly work to achieve the objectives.	Review and rearrange the Key Performance Indicators corresponding to OPZ objectives; Elaborate the objectives into Key Performance Indicators before drafting the Activities Plan and Annual Budget (RKAT); regularly conduct performance audit and evaluations.

Identification of Objective Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
16	The leaders of the zakat institution do not understand/appreciate the OPZ objectives.	2.2	5.9	3	3	Loss of direction; the OPZ may become fundamentally inefficient; low leadership dedication.	Elaborate the objectives into the Key Performance Indicators before drafting the Activities Plan and Annual Budget (RKAT); hold regular and structured training for zakat administrators.
17	Zakat administrators do not understand/appreciate OPZ objectives.	3.5	5.7	3	3	Low zakat administrator dedication.	Elaborate the objectives into the Key Performance Indicators before drafting the Activities Plan and Annual Budget (RKAT); hold regular and structured training for zakat administrators.
18	The community does not understand the OPZ and what it does to achieve its objectives.	5.5	5.3	3	2	The community shows less concern about the OPZ; reduced public trust.	Approach and communicate; effective socialization to the public; use social media such as websites and applications.
19	Lack of facilities and infrastructure related to the objectives.	4.6	5.0	3	2	Reduced performance in increasing trust; inhibits the development of the OPZ.	Improve program creativity; set budget plans according to program priorities; program innovation according to budget contingency.
20	Insufficient and poor quality human resources to achieve the objectives.	5.4	5.8	3	3	The achievement of objectives is disrupted; reduced OPZ credibility; inhibits the development of the OPZ in the short term.	Compile recruitment standards; improve zakat administrator competency; make performance appraisals to assess zakat administrator performance.
21	Lack of management effectiveness in achieving its objectives.	5.0	5.9	3	3	Achievement of OPZ objectives is disrupted; decreased OPZ credibility; ineffectiveness and inefficiency; potential fraud.	Hold regular meetings and evaluation; mechanisms for evaluating the level of organ foundations.

Identification of Reputation Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	OPZ has not been optimal in carrying out all its functions (such as education, information, consultation and zakat collection).	5.4	5.5	3	2	Poor performance of the OPZ; decline in the credibility of the OPZ and in public trust; risk of the OPZ shutting down in the medium to long term.	Educational, information, face-to-face and media/IT consulting services; routine performance evaluation; repair and prevention; improve partnership cooperation.

Identification of Reputation Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
2	The OPZ has not been optimal in utilizing zakat funds for lawful recipients.	3.5	5.5	3	3	Obligated zakat payers can have a chance to feel the influence of zakat significantly; lawful recipients who have not been empowered, will continue to be assisted by zakat funds, even though the funds are limited.	Conduct monitoring and evaluation of utilization programs; make impact assessment of each program; improve partnership cooperation.
3	The OPZ has not been optimal in managing all its processes according to regulations, good governance and Sharia laws.	4.0	5.9	3	3	The risk of fraud committed by employees who violate the management of zakat funds; low OPZ compliance rate.	Form a Compliance Division to ensure that operations always comply with Sharia law; formulate a compliance module; perform socialization and compliance audit.
4	The OPZ has not been optimal in playing an active role in forums, cooperation and other programs to increase its effectiveness in managing zakat funds.	4.0	4.2	2	2	Lack of coordination between OPZs reduces OPZ credibility and public trust.	Minimize the length of the zakat bureaucracy chain; cooperate with other OPZs in joint priority programs.
5	OPZ adjustment risk due to new regulations (legal, organizational, operational, etc.)	6.3	5.4	3	3	The OPZ needs considerable time and money to adjust its activities according to the provisions; it cannot continue its operations.	Licensing; adjust OPZ management according to regulations.
6	The OPZ does not have a good reputation amongst the public.	4.6	6.2	3	3	There is a possibility that the public do not fully recognize the OPZ, its programs, and its fund recipients; affects the validity of zakat worship and possibly reduces its blessings.	Commit to and implement GAG; excellent service; effective socialization; strengthening compliance aspects; institution positioning; program and service innovation.

Identification of Corporatization Risks		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Misuse of ZIS funds (Zakat, In-faq and Sadaqah) for the establishment of companies that are not in accordance with Sharia principles.	2.8	5.9	3	2	Violation of Sharia compliance and regulation; damage the credibility of the OPZ.	Establish specific institutional and legal policies regulating the fair and proportional expansion of subsidiaries.
2	Expansion of the Zakat Management Agency (LPZ) to establish subsidiaries related to LPZ activities.	2.6	4.8	3	2	Loss risk if the subsidiary suffers a loss, which will reduce the zakat administrators' fund-bound funds.	Develop customer voice channels or zakat community voices in the context of social control over all zakat fund management made by the institution.
3	Conflict of interest in the Zakat Management Agency (LPZ) in developing social and/or commercial subsidiaries.	3.5	4.5	2	2	Conflicts of interest can trigger separation, or OPZ merger.	Build strong internal audit and third-party supervision.

Identification of External Education Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Many people still do not understand about zakat.	5.7	6.0	3	3	Low public awareness of zakat and its payment.	Educate public through books, program documentation, re-ports and info-graphics.
2	Low public awareness of the importance of paying zakat.	5.1	5.6	3	3	Obliged zakat payers only pay infaq (spending in God's way) or zakat al-fitr (zakat paid by the end of the Ramadan month); low zakat collection.	National zakat education involving all stakeholders; arrange various scientific works and seminars.
3	The public prioritizes paying taxes rather than paying zakat.	4.5	5.0	3	2	Low zakat collection.	National zakat education involving all stakeholders; arrange various scientific works and seminars.
4	The community does not understand the importance of distributing zakat through OPZs.	6.3	5.4	3	2	The OPZ does not optimally manage the zakat funds; inhibits its development.	Perform extensive, regular and structured socialization; syner-gize with universities in socializing Zakat, Infaq, Sadaqah, and Waqf (ZISWAF).

Identification of External Education Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
5	The public prefer to pay zakat directly to lawful recipients.	5.4	5.2	3	2	Creates an adverse mentality (consumptive and always wanting to get something); low zakat collection.	National zakat education involving all stakeholders; arrange various scientific works and seminars.
6	The government has not provided effective education on zakat administrators' duties, responsibilities and obligations.	6.2	4.3	3	2	The OPZ does not optimally manage the zakat funds.	OPZs work together with the government; development of a specific zakat socialization program by the government.
7	The government does not educate the public about zakat.	6.4	5.0	3	3	Zakat education funds are held independently by OPZs; a low level of zakat education is only provided in some elementary schools. in small portion.	Development of specific zakat socialization program by the government; cooperate with media and education sectors.
8	Lack of government support for zakat education.	5.9	4.9	3	3	Low public awareness of zakat and paying zakat.	OPZs work together with the government; development of a specific zakat socialization program by the government.
9	Government education programs have not been well structured.	6.2	5.4	3	2	Government and other institution programs on zakat education are ineffective and difficult to achieve; the public passively pays its zakat.	Program evaluation with the government; development of a specific zakat socialization program by the government.
10	Overlapping programs run by the government and other institutions.	4.6	4.7	2	1	Government and other institution programs on zakat education are ineffective and difficult to achieve.	Program monitoring and evaluation with the government: development of a specific zakat socialization program by the government.
11	The government does not have a continuous program on zakat education.	6.1	5.0	3	2	Low public awareness about zakat and paying zakat; inhibits the development of OPZs.	Prepare a systematic plan and set education targets with the government.
12	The government does not have zakat socialization/education programs.	5.0	5.1	3	2	Low public awareness of zakat and paying zakat; inhibits the development of OPZs.	Plan the program systematically and set targets for zakat education with the government.

Identification of External Education Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
13	The government has not allocated a sufficient budget for socializing and educating the public about zakat.	6.2	5.0	3	2	Government and zakat institutions do not work in tandem and tasks may overlap and conflict with each other.	Use LAZ internal funds for socialization costs; cooperate with people from the business, media, and education sectors.
14	The government has not included zakat subjects in the primary and secondary school curriculums.	3.7	5.6	2	2	Low public awareness of zakat and paying zakat; inhibits the development of OPZs.	Arrange various scientific works and seminars; set coordination policy with educational/Islamic school institutions to add zakat to the curriculum.
15	The government does not have strategic cooperation on zakat education with related institutions.	5.6	5.0	3	2	Zakat education is not synergistic; low public awareness of zakat and paying zakat.	Development of specific zakat socialization program by the government; synergize with the government through the Ministry of Education and Culture and the Ministry of Religious Affairs.
16	Lack of coordination between the government and related institutions in the zakat education/socialization programs in the community.	5.8	5.0	3	2	Low public awareness of zakat and paying zakat; resource inefficiency.	Synergize with government through the Ministry of Education and Culture and the Ministry of Religious Affairs.

Identification of Internal Education Risk		Overall				IMPACTS	MITIGATION
		L	I	V	S		
1	OPZs have not been effective in educating the public.	4.8	3.9	3	3	Low public awareness of zakat and paying zakat.	Provide consultation on Zakat, Infaq, Sadaqah and Waqf (ZISWAF) in socializations; develop education program strategy.
2	Most OPZs sell products instead of educating about zakat.	5.8	4.4	3	3	The public distribute their zakat themselves, directly to the lawful recipients.	Balance the OPZ education and funding programs; arrange za-kat education themes and focus on improving people's understanding, not just selling programs.

Identification of Internal Education Risk		Overall				IMPACTS	MITIGATION
		L	I	V	S		
3	OPZs expect the government to play a significant role in zakat education.	6.8	5.0	3	2	Low public awareness of zakat and paying zakat.	Together with related parties encourage the government to play an active role; develop a specific program for government zakat socialization; collaborate with zakat players, media and those in the education sector.
4	OPZ programs have not been effective in educating the community about zakat.	4.7	4.3	3	2	Low public awareness of zakat and paying zakat.	Review and evaluate communication strategies; develop part-nerships for the education program.
5	Educational programs run by OPZs have not been well structured.	5.0	4.3	3	2	The OPZ education program is ineffective and difficult to achieve; resource inefficiency.	Structured education strategies; cooperate with other OPZS on the zakat campaign.
6	Zakat education programs in the community run by OPZs require large funds.	4.9	4.3	2	2	Reduction in the allocation to priority recipients; reduced OPZ operational funds.	Synergy with other OPZs; partnership programs; take advantage of the Zakat Association and Forum.
7	The zakat education programs run by OPZs have not been included in the key performance indicators of zakat administrators.	3.5	4.6	3	3	The OPZ education program is ineffective and difficult to achieve.	Incorporate socialization elements and include zakat education in key performance indicators.
8	Lack of coordination between OPZs regarding zakat education to the public.	5.5	4.2	3	2	The OPZ program is not optimal because it lacks synergy; wastes time and money since there is no cooperation.	Synergy and more intensive communication between OPZs.
9	OPZ have not introduced themselves well to the public	5.9	4.8	3	3	OPZs work less than optimally in the zakat management process; low zakat collection.	Run communication programs and consultation on Zakat, Infaq, Sadaqah, and Waqf (ZISWAF); create regular socializations weekly or monthly.
10	OPZs lack of resources/funds to introduce themselves to the wider community.	5.8	5.0	3	2	Zakat administrators' energy directed just at educating the public; OPZs less than optimal in managing zakat.	Construct an effective communication strategy; synergize with related parties; assign persons in charge for marketing inside the OPZ structure and for budget allocation.

Identification of Internal Education Risk		Overall				IMPACTS	MITIGATION
		L	I	V	S		
11	OPZs lack resources/funds to conduct zakat education.	6.0	4.8	3	2	Zakat administrators' energy directed just at educating the public; OPZs less than optimal in managing zakat.	Look for sponsorship funds; joint communication activities; use of methods, facilities, partnership cooperation, and feedback evaluation.
12	OPZs do not have a continuous program of zakat education.	4.8	4.4	3	2	The OPZ program is not optimal; waste of time and money.	Run an annual zakat education program; optimize partnerships; actively participate in various government education programs.
13	The OPZ/OPZ Association does not have a zakat socialization/education movement.	3.7	4.4	3	2	The education program run by OPZs is ineffective and difficult to achieve; lack of public understanding of zakat and paying zakat.	Perform synergetic socializations amongst OPZs; joint evaluation.
14	OPZs have not allocated a sufficient budget for socializing and educating the public about zakat.	5.0	4.6	3	2	With their lack of human resources and funds OPZs will spend more time, funds and energy.	Optimize cooperation and partnerships.
15	The OPZ/OPZ Association has not insisted the government include zakat subjects in the primary and secondary curriculums.	5.5	4.3	3	2	The education program run by OPZs is ineffective and difficult to achieve; lack of public understanding of zakat and paying zakat.	Develop a Memorandum Of Understanding (MOU) with the government; create a proposed zakat curriculum concept for educational institutions; optimize cooperation and partnerships.
16	The OPZ/OPZ Association does not have strategic cooperation on zakat education with related institutions.	4.1	3.8	3	2	Education programs run by OPZs are ineffective and difficult to achieve; lack of public understanding of zakat and paying zakat.	Hold intensive dialogue between the OPZs, the government and academics; optimize cooperation and partnerships.
17	Lack of coordination between the OPZ/OPZ Association and related institutions in educating the public about zakat.	4.5	3.8	3	2	Lack of public understanding of zakat and paying zakat.	Ensure effective coordination between OPZs, associations, and related institutions; hold intensive discussions between OPZs, the government and academics; optimize cooperation and partnerships.

Identification of Collection Fund Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	The wealth used to pay zakat is obtained from corruption.	2.8	4.1	2	2	OPZ funds are mixed with non-halal funds.	Wealth education to the public; provide training on Islamic financial topics; create a Standard Operating Procedure (SOP) for receiving funds.
2	The wealth used to pay zakat is obtained from non-halal income.	3.9	4.0	2	2	OPZ funds are mixed with non-halal funds; violation of Sharia laws; zakat funds become invalid.	Add a disclaimer note to the obliged zakat payer confirmation form; wealth education to the public.
3	The wealth used to pay zakat is obtained come from bank interest.	4.5	2.7	2	2	OPZ funds are mixed with non-halal funds.	Provide regular Islamic economics short-courses for OPZ stakeholders.
4	The wealth used to pay zakat is obtained come from conventional stock profits.	4.5	3.1	2	2	OPZ funds are mixed with non-halal funds; violation of Sharia laws; zakat funds become invalid.	Educate obliged zakat payers about wealth or sources of funds that are in accordance with Sharia laws.
5	The wealth used to pay zakat is obtained from non-halal income (corruption, usury etc.).	5.1	2.7	2	2	OPZ funds are mixed with non-halal funds; violation of Sharia laws; zakat funds become invalid.	Educate obliged zakat payers about wealth or sources of funds that are in accordance with Sharia laws.
6	The wealth that is used to pay zakat is shared assets.	4.7	2.6	2	2	Incorrect zakat calculation.	Educate public on how to calculate zakat funds; provide consultation to obliged zakat payers.
7	The wealth that is used to pay zakat is a counterfeit money.	2.7	2.7	2	2	Weakened OPZ reputation.	Strengthen the Sharia compliance unit; add a disclaimer note to the obliged zakat payer confirmation form.
8	The wealth that is used to pay zakat does not belong to the payers.	2.1	2.3	2	2	Creates conflict with the real owners of wealth and violates Sharia law.	Create an SOP for receiving funds; strengthen the Sharia compliance unit.
9	The wealth that is used to pay zakat has not been correctly counted according to zakat calculation (nishab & haul).	4.0	2.8	2	2	The status of the funds is not zakat, but infaq or sadaqah.	Create an SOP for receiving funds; strengthen the compliance unit; formulate the compliance range; perform socialization, implementation and compliance audit.

Identification of Collection Fund Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
10	Projections of zakat potential are over-optimistic and inaccurate.	5.2	4.3	2	3	Resetting of the budget can affect the satisfaction rate of lawful recipients; affects the indicators of program success.	Budget monitoring and evaluation procedures; strengthen the zakat database.
11	The OPZ zakat collection plan is over-optimistic.	5.5	4.7	2	3	Realization of the zakat collection target is missed; significantly influences program implementation in the field.	Develop a measurable collection plan using historical data.

Identification of Productive Fund Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Use of zakat funds for personal/group interests.	2.4	4.0	1	2	Invalid distribution according to zakat beneficiary requirements (asnaf); violation of Sharia law.	Devise policies on the limits and provisions of program fund utilization; make regular financial reports.
2	All zakat funds are not distributed within a year.	2.3	3.7	1	1	Violation of the rules; all zakat funds must be distributed to lawful recipients.	Create an SOP for distributing ZISWAF funds; improve the audit of Sharia compliance.
3	Zakat funds are held in banks.	2.4	3.7	1	1	Violation of the rules; zakat funds are not allowed to be kept.	Implement a compliance system and perform an internal audit.
4	Zakat funds are not distributed to lawful recipients.	1.6	4.3	2	2	Violation of the laws; zakat funds must be distributed to the lawful recipients.	Perform monitoring and evaluation of each program; make regular financial reports; strengthen the compliance unit.
5	Zakat funds are distributed unfairly to the beneficiaries (asnaf).	2.2	3.9	2	2	Ineffective zakat fund distribution.	Conduct a recipient survey; create an SOP for recipient identification.
6	Zakat funds are distributed unfairly to each lawful recipient.	2.4	3.9	2	2	Ineffective zakat fund distribution; justice risk to the rights of the beneficiaries (asnaf).	Undertake distribution based on an SOP ; conduct surveys of potential recipients who are eligible as beneficiaries (asnaf).

Identification of Productive Fund Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
7	Zakat funds are distributed unfairly in the area of lawful recipients.	2.7	4.3	2	2	Ineffective zakat fund distribution; justice risk to the rights of the beneficiaries (asnaf).	Conduct mapping of potential regions according to their poverty rate; collaborate with local institutions.
8	It takes time for the zakat funds to reach the lawful recipients.	2.5	4.1	2	2	Justice risk to the rights of the beneficiaries (asnaf); weakened OPZ reputation.	Undertake distribution based on an SOP; take preventive actions or make system improvements; create an effective and efficient business process.
9	The amount of zakat funds for consumption purposes per recipient is relatively small.	3.5	3.2	2	3	Lawful recipients cannot fulfill all their needs; weakened OPZ reputation.	Evaluate distribution performance, the quality of lawful recipient service and the impact of programs.

Identification of Fund Distribution Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	The amount of zakat funds for productive purposes is much greater than the funds used on the consumption side, while the consumption target has not been met.	3.3	2.8	2	2	Violates the laws and weakens OPZ credibility; the allocation of zakat funds is not based on lawful recipients' basic needs.	LAZ policies in fund allocation; make strict assessment of fund allocation for lawful recipients' consumption purposes.
2	Risk of revolving funds for productive purpose that are still recorded as receivables, the time of zakat funds are considered have been distributed or not.	3.1	2.8	2	2	Not in accordance with Sharia law and can weaken OPZ credibility.	Set a maximum time limit for the funds to be in the receivables account.
3	Zakat funds for productive purposes for each lawful recipient are too small.	4.3	2.6	2	2	Lawful recipients' businesses are less developed; it is impossible to withdraw the zakat funds from lawful recipients and leave them financially independent.	Make strict assessment so that no lawful recipients receive a relatively small amount of zakat; evaluate the performance of the distribution program.

Identification of Fund Distribution Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
4	The zakat funds are used as a revolving fund for more than a year.	3.5	2.8	2	2	Violates the law - zakat funds must be distributed within a year; risk of damaging lawful recipients' rights.	Standardize the Memorandum of Understanding about the time limit for revolving funds' time of return.
5	Revolving funds from zakat are not effective because the lawful recipients are not equipped with the required expertise.	3.2	2.9	2	2	Revolving fund programs (for productive purposes) are less effective; the risk of revolving funds becoming stuck and OPZ losing the funds that will not be replaced.	Construct a policy on forming a revolving fund management division; provide training and assistance for lawful recipients' business by officers/volunteers.
6	Revolving funds received by lawful recipients who are not equipped with sufficient skills.	2.9	2.8	2	2	The revolving fund program is less successful.	Evaluate the performance of the distribution program, the quality of service towards recipients, and the program impacts.
7	Revolving funds from zakat are less effective because the lawful recipients know that the funds are zakat funds.	3.9	3.0	2	2	Revolving fund programs (for productive purposes) are less effective; the risk of revolving funds becoming stuck and OPZ losing the funds that will not be replaced.	Strengthen the concept of revolving funds; run regular training to change lawful recipients' mindsets.

Identification of Collection Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	The OPZ uses many bank accounts to collect zakat, which causes confusion amongst obliged zakat payers.	4.8	3.5	2	2	Obliged zakat payers are confused about the bank accounts for the fund purposes; inefficient and ineffective fundraising accounts; high account fees.	Review the benefits of fundraising accounts in relation to cost efficiency; evaluate service performance and obtain feedback from obliged zakat payers.
2	Use of conventional banks to pay zakat.	6.2	3.0	2	2	People are not educated that usury and conventional banks are not allowed in Islam; the public will not have good perceptions of the OPZ; risk of non-compliance with Sharia provisions.	Create an SOP for fund distribution; construct a policy that conventional banks should only be used for depositing Zakat, Infaq and Sadaqah (ZIS) funds temporarily.
3	Lack of control over the zakat fund collection process.	2.3	4.5	2	2	Complexity and inaccuracy by the OPZ in recording the collection of zakat funds.	Evaluate the performance of fund collection division monitoring.

Identification of Collection Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
4	Lack of information and publicity about zakat collection by the OPZ.	2.4	4.3	2	2	The community is not familiar with, and does not distribute their zakat through, the OPZ.	Publish the financial reports in various media; financial statement transparency.
5	There is a difference in the amount in zakat paid by the obliged zakat payers and that received by zakat administrators.	3.2	4.5	2	2	Weakened public trust in the OPZ; risk of fund embezzlement, which can also reduce the level of public trust.	Implement the SOP thoroughly; evaluate the performance of fund management; fix the checking system between recorded funds and the amount collected in the front office.
6	The OPZ has different views/schools of thought about zakat.	5.7	2.4	2	2	Obliged zakat payers are confused about how to calculate zakat funds correctly; risk arises of financial standardization to be compared.	Hold a joint forum with the Sharia Advisory Board (DPS) of LAZ; develop guidelines that are in accordance with the fatwa (Islamic law imposed by a recognized authority) from the National Sharia Advisory Board (DSN).
7	Lack of transparency in zakat collection activities as evidence to obliged zakat payers.	3.1	3.9	2	2	Weakens obliged zakat payers' trust in the OPZ and they switch to another one.	Publish the financial reports in various media.
8	Proof of zakat payment is not received by the obliged zakat payers, possibly due to zakat administrator negligence.	3.5	4.1	2	3	Reduces the trust in managing OPZ business activities; potential of not being able to report the paid funds as a deduction from income in obliged zakat payers' annual tax statements.	Improve the data on obliged zakat payers; develop the system to minimize the potential for fraud.

Identification of Fund Management Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Absence of an SOP for managing zakat funds.	2.0	4.3	2	2	The OPZ has no strong foundation as an operational guide.	Evaluate performance according to procedures; adopt standardized quality management.
2	Absence of standardized Standard Operating Management (SOM) for zakat fund management.	2.0	4.1	2	2	Ineffective OPZ management of zakat funds.	Evaluate performance according to procedures; work together with related parties to compile the SOM and apply it as an OPZ policy.

Identification of Fund Management Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
3	High OPZ operational costs.	4.6	4.6	2	2	Reduction in the proportion of zakat allocation to lawful recipients; inefficient management of zakat administrator funds, which can affect public trust.	Manage the institution effectively and build partnerships with related parties; set a budget range; construct a ratio such as Operational Cost Operational Revenue (BOPO).
4	Zakat funds being deposited in conventional banks.	3.9	3.2	2	2	Deviation from Sharia rules; risk of receiving non-halal funds and non-compliance with Sharia provisions.	Do not use conventional banks to pool zakat funds; devise management policies; set the compliance range by the Sharia Advisory Board of the OPZ (DPS OPZ); choose banks for the collection and saving of funds.
5	Holding zakat funds in banks for the sake of profit.	3.5	3.6	2	2	Deviation from Sharia rules; delayed rights of the lawful recipients.	Do not use conventional banks to pool zakat funds; strengthen the Sharia compliance audit.
6	Risk of pooling muqayyad (restricted purpose) and mutlaqah (unrestricted purpose) zakat funds that should be different (PSAK 109 paragraph 14).	2.8	2.8	2	2	Reduced OPZ credibility.	Make evaluations according to the fund collection procedure.
8	Banks where zakat institutions deposit money are problematic/liquidated.	2.6	3.3	2	2	Zakat funds are reduced, lost or hampered in their distribution.	Selectively choose banks as partners.
9	The absence of best practice in good zakat management.	3.6	3.2	2	2	Ineffective OPZ management of zakat funds.	Choose an outstanding zakat institution as a reference for benchmarking; develop structured and easily understood OPZ governance guidelines.
10	Use of many bank accounts for different types of fund.	5.0	3.9	2	2	Management of zakat funds is complicated; emergence of pooling funds for some of the funds.	Use banking payment channel facilities such as virtual accounts.
11	Use of many bank accounts in managing funds.	5.9	3.6	2	2	Management of zakat funds is complicated; increased costs and added complexity, causing complexity and potential errors in calculating zakat administrator funds.	Selectively choose banks for depositing the collected and savings funds; enforce the implementation of virtual accounts.

Identification of Fund Management Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
12	No transparency or accountability in fund management.	1.7	4.6	2	2	Decline in the trust of obliged zakat payers and the general public of the OPZ.	Publish OPZ financial statements in the mass media.

Identification of Distribution Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Overlapping zakat fund distribution with other OPZs.	5.3	3.0	2	2	Injustice in the distribution of zakat; inefficient fund allocation; accountability and transparency are not achieved.	Synergize with other OPZs in distribution programs; build a lawful recipient database.
2	Distribution of zakat funds is not in accordance with the zakat beneficiaries' requirements (8 ashnaf)	2.3	2.7	2	2	Deviations occur in the distribution of zakat, which is not in accordance with Holy Koran Surah At-Taubah:60.	Develop an integrated database system of distribution; assess distribution and build networking partners from local zakat managers.
3	Delays in distributing zakat funds to lawful recipients.	2.6	2.9	2	2	Delays to the rights of the lawful recipients; lawful recipients cannot fulfill their basic needs.	Implement an SOP for distribution; evaluate the performance of the distribution program.
4	The implementation of particular zakat distribution takes more than one year.	1.8	2.6	2	2	Lawful recipients cannot fulfill their basic, educational and health needs.	Perform monitoring and evaluation of the utilization programs; gather data on zakat distribution in each region.
5	Zakat funds are kept too long, and not immediately distributed.	1.7	3.2	2	2	Affects the rights of lawful recipients; lawful recipients cannot fulfill their basic needs.	Develop measured and structured monitoring and reporting systems; strengthen the compliance audits.
6	Zakat distribution is uneven.	3.8	3.0	2	2	Distribution of zakat funds is ineffective; unfair allocation and distribution of zakat funds affects the rights of the beneficiaries (asnaf).	Conduct appropriate tests on the program area; map lawful recipients based on region.
7	Errors in zakat distribution.	1.5	2.8	2	2	Weakens OPZ credibility.	Make an assessment of distribution and build up networking partners from local zakat institutions.

Identification of Distribution Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
8	Lack of facilities for distributing zakat, such as bank transfers, ATMs or postal money transfers.	2.2	2.3	2	2	Delays to lawful recipients receiving zakat funds.	Use all existing payment channels; optimize partnerships.
9	No review of the location before the distribution of zakat.	1.4	2.5	2	2	Lawful recipient data does not match the reality.	Conduct appropriate tests on the program area; map lawful recipients based on region.
10	Lack of coordination between OPZs in the distribution of zakat.	4.2	2.7	2	2	Double distribution; less than effective distribution of zakat funds.	Synergize with other zakat institutions through zakat forums; construct an integrated distribution system database; create a website for zakat distribution.
11	Risk of money transfers not reaching the lawful recipients.	2.2	2.4	2	2	Lawful recipients' rights infringed.	Perform monitoring and evaluation of utilization programs; strengthen internal audit.

Identification of Network Infrastructure/IT Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Damaged or temporarily out of service IT system.	4.5	4.4	3	4	Loss of obliged zakat payer and lawful recipient data, as well as OPZ reports; unconveyed information and communication to beneficiaries.	Perform system back up regularly and procure a back-up server; develop a back-up data center and perform routine maintenance of IT facilities.
2	Data lost through computer viruses.	3.1	4.2	3	4	Hinders zakat management; risk to the safety of the database in terms of transparency and accountability.	Create an SOP based on IT and perform manual back up; conduct anti-spyware and antivirus checks.
3	The absence of a standard information technology system that supports all zakat institution work.	3.8	4.3	3	3	Delays in delivering financial information; zakat fund management by the OPZ is ineffective	Perform manual backups; cooperate with IT institutions.

Identification of Network Infrastructure/IT Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
4	No adequate information technology system supporting the recording process.	2.8	4.5	2	3	Delays and less valid OPZ periodically reports to its stakeholders	Cooperate with tested and professional IT vendors.
5	Absence of a comprehensive obliged zakat payer database.	2.6	3.9	3	2	The OPZ works ineffectively in collecting zakat funds.	Collaborate with authorities to build a zakat database.
6	Difficulties in paying zakat through current technology (e-banking, SMS-banking, apps, post etc.)	2.1	3.7	2	2	The OPZ works ineffectively in collecting zakat funds.	Cooperate with Islamic Finance Institutions
7	Lack of effective operational management of applications, networks and database system.	3.5	4.2	2	3	Risk of data manipulation; inhibits OPZ operations.	Create a specific team for network management; develop a blueprint for infrastructure and system technology; create an SOP based on IT.
8	Poor network quality or outdated technology.	3.7	4.1	2	2	Inhibits OPZ operations; risk to data and information management.	Partner with third parties who have adequate network facilities; standardize selection of network/application vendors; make routine inspections and output evaluation.
9	Ineffective access code/password process.	2.8	3.4	2	2	Inhibits OPZ operations; information leaks.	Create an SOP based on IT; implement and audit IT; strengthen the IT unit.
10	Information leaks.	3.1	4.1	2	2	Performance failure.	Strengthen the IT unit; conduct periodic IT audits.

Identification of Cooperation Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Partners use zakat funds for other programs.	3.0	3.2	2	2	Injustice occurs in the management of zakat.	Optimize the SOP for distribution cooperation (Service Level Agreement).
2	Partners are less effective in distributing zakat funds.	2.7	3.1	2	2	Deviations occur in the distribution of zakat, which is not in accordance with Holy Koran Surah At-Taubah:60.	Determine partnership criteria and standardize each of OPZ

Identification of Cooperation Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
3	Delays in delivering program implementation reports by partners.	3.7	3.7	2	2	Late reporting of the implementation of programs by partners.	Perform effective and measurable monitoring and evaluation; create an SOP for distribution cooperation.
4	Unpreparedness of the program division/partners in the distribution of zakat funds.	2.6	3.4	2	2	Inefficient fund allocation.	Standardize the quality of OPZ partners; impose strict sanctions on partners.
5	Distribution through partners is mishandled.	2.7	3.6	2	2	Partners who submit reports late are subject to sanctions and at worst face the threat of partnership termination.	Perform program monitoring and evaluation; establish an OPZ communication and coordination forum with partners; set strict sanctions for any violation.
6	Distribution through partners is not as planned by the OPZ.	2.3	3.2	2	2	Unfair distribution of zakat funds according to the rights of each zakat beneficiary (asnaf).	Standardizing the quality of OPZ partners; Strict sanctions for partners
7	Delays in delivering program reports by the OPZ itself or by OPZ partners	3.5	3.1	2	2	Weakens OPZ credibility.	Set strict sanctions for any violation; hold evaluation meetings.
8	The OPZ has not been optimal in establishing partnerships with zakat-related stakeholders.	3.6	3.2	2	2	The OPZ has not been optimal in establishing partnerships with zakat-related stakeholders.	Equate perceptions about the procedures for managing zakat with those of partners.
9	Errors in the selection of cooperation partners.	2.0	3.3	2	2	Affects OPZ reputation; weakens OPZ credibility.	Make a list of reputable zakat partners and hold evaluation meetings.
10	Dependence on program partners' technology.	2.8	3.7	2	2	Reduces OPZ integrity and independence; dependence on program partners' technology.	Build independent technology; create an SOP for distribution cooperation (Service Level Agreement); transfer partners' technology to the OPZ.
11	Partners fail to understand and fulfil the needs of lawful recipients.	2.4	3.5	2	2	Lawful recipients' rights infringed.	Evaluate the performance of distribution programs.

Identification of Program Development Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Lack of ideas for creating new programs that are on target.	2.7	3.6	2	1	Inhibits program development; absence of innovations in program development; zakat funds not well distributed.	Hold regular Forum Group Discussions (FGDs) and public hearings; improve the competency of zakat administrators.
2	Inefficiencies in the identification process of lawful recipients' needs and wishes.	2.5	3.5	2	2	Zakat funds not well distributed.	Program assessment made by divisions.
3	Research into or testing of new programs is inaccurate.	3.1	4.0	2	2	Failure to develop programs, zakat fund distribution is not on target; failure to execute and measure programs.	Create an effective socialization strategy; assign persons in charge to marketing tasks; design program marketing drafts for each new program.
4	New program development strategy is ineffective.	2.5	3.5	2	2	Failure to develop programs.	Optimize the OPZ research and development (R&D) division.
5	Socializations of new programs in communities are less intensive and frequent.	3.8	3.9	2	2	The public does not understand new OPZ programs; slow growth in the level of community participation.	Make joint efforts with related parties to enhance the efficiency of program utilization.
6	Low OPZ operational costs.	4.1	3.9	2	2	Disruption to operational management; new programs become difficult to recognize and lawful recipient participation in the success of programs is low.	Design programs with the approach of potential assessment instead of needs assessment.
7	Costly to develop new products.	4.0	4.3	2	2	Look for new potential obliged zakat payers to fund new programs; innovation in new programs is low.	The management board should approve the proper testing and implementation of newly developed programs.
8	Support for newly launched programs is lacking.	3.4	3.6	3	2	Implementation of new programs is not optimal and is slow.	Develop a good assessment program, following current issues; reactivate research and development (R&D) unit work under the program division and report to the board of directors monthly.
9	Absence of a high quality distribution program.	2.0	4.1	2	1	Achievement of the objective of poverty alleviation is less than effective	Make a review of program implementation for all units and partners.

Identification of Program Development Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
10	Program service quality is poor.	2.1	3.9	2	2	Slow growth in collection funds; obliged zakat payers begin to leave the OPZ.	Establish a minimum standard of service quality; review program implementation.
11	Programs are less diversified.	2.9	4.0	2	2	Unvarying and limited programs for different types of lawful recipient.	Construct a program development draft with all stakeholders' participation.
12	Lack of communication between program coordinators.	2.1	3.9	2	2	OPZ programs are less than optimal; money and time wasted since there is a lack of good coordination.	Make periodic evaluations; establish a forum comprising program coordinators.
13	Programs are copied and are not innovative.	2.4	3.7	2	2	The reputation of the institution is not strengthened; obliged zakat payers begin to leave the OPZ.	Create program innovations; make program evaluation based on key performance indicators.
14	Ineffective program monitoring and evaluation process.	2.3	4.0	2	2	The occurrence of program irregularities; ineffectiveness of program execution and accountability.	Assign a person in charge (PIC) for monitoring and evaluation; make program evaluations based on key performance indicators.

Identification of Leadership Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Low quality of OPZ leader.	2.4	3.6	2	2	Decline in public trust of the OPZ and zakat collection.	Run fit and proper tests for OPZ leadership candidates.
2	The leader does not understand/appreciate the OPZ vision, mission and goals.	2.2	4.3	2	2	Achievement of the vision, mission and objectives is less than effective.	Conduct orientation for all zakat administrators.
3	The OPZ leader is not widely known by the public.	3.5	3.0	2	2	The vision, mission and goals are not achieved, reducing OPZ credibility and public trust.	Develop personal branding of all OPZ leaders
4	Poor leadership in reaching the OPZ goals.	2.2	4.0	2	2	The vision, mission and goals are not achieved, reducing OPZ credibility.	Creating an agenda training and the development of leaders

Identification of Leadership Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
5	The idealism of the zakat administrators declines.	2.9	4.6	2	2	The idealism of zakat administrators declines; fall in the number of good quality human resources.	Build up the organization and increase the role of the HR division; conduct motivational training.
6	Risk of not being able to recruit, maintain or manage HR.	3.3	4.1	2	2	Risk of not being able to recruit, maintain or manage HR; reduction in the number of good quality human resources.	Provide services and a conducive working environment to zakat administrators, improving OPZ performance and the performance of zakat administrators; maintain the level of welfare of zakat administrators.
7	Risk of lack of good communication, leadership and motivation of zakat administrators.	2.5	3.9	3	2	High turnover and high costs incurred.	Hold forums on zakat administrators' communication and other routine activities; conduct orientation for all new zakat administrators.
8	Failure to ensure and maintain OPZ productivity and efficiency.	3.6	4.3	2	2	Failure to ensure and maintain OPZ productivity and efficiency; reduction in the number of good quality human resources	Produce independent reports to measure the productivity and efficiency of the OPZ, using standard ratios such as BOPO and a productivity ratio.
9	Ineffective remuneration structure.	3.7	4.3	3	2	Ineffective remuneration structure; reduction in the number of good quality human resources	Review the remuneration policy.
10	The working plan does not meet the needs.	2.5	3.6	2	2	Fall in OPZ achievements; decline in OPZ reputation.	Prepare of an effective and measurable working plan.
11	The zakat administrator development strategy is not effective.	3.3	4.0	3	2	Risk to HR development; reduction in the number of good quality human resources.	Provide adequate and fair compensation for all zakat administrators.
12	The reward and punishment system of zakat administrators is not balanced.	3.9	4.1	2	2	The reward and punishment system of zakat administrators is not balanced; reduction in the number of good quality human resources	Make awards that are commensurate with performance; create a scoring system for zakat administrators' performance sustainability.
13	Ineffective placement of zakat administrators.	3.5	3.8	2	2	The effectiveness of the organization is not optimal.	Make an analysis of job positions; implement personal assessment of every zakat administrator.

Identification of Leadership Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
14	Organization structure overlaps.	3.6	3.6	2	1	HR Efficiency	Map the jobs and zakat administrator competencies and consider these before compiling the organizational structure.
15	A fit and proper test to determine the OPZ leader.	3.3	4.1	2	2	OPZ development is slow; failure to manage the OPZ.	Make a system evaluation of fit and proper tests for prospective OPZ leaders.
16	In board elections, the risk of being trapped with famous or entrusted people.	2.6	3.8	2	2	Failure in monitoring and managing the OPZ.	Strengthen Islamic compliance audits.

Identification of Competition Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Competition with other OPZ programs.	5.9	4.3	3	3	Disharmony between OPZs; allocation of campaign costs is too high.	Create success indicators for programs which can be measured appropriately; avoid competition by delivering differentiation in prime programs.
2	Risk of unfair competition with other OPZs.	5.3	4.7	3	3	Disharmony between OPZs; violation of ethics and disruption of service priority to lawful recipients.	Avoid competition between OPZs and provide differentiation in segmentation and target markets; draft a joint agreement between BAZNAS and Ministry of Religious Affairs.
3	Risk of unfair competition between OPZs and other social humanitarian institutions.	4.8	4.3	3	3	Disharmony between OPZs and other humanitarian social institutions; violation of ethics and disruption of service priority to lawful recipients.	Review the target markets; focus on the target market itself so that there is no competition in the same market.
4	Negative OPZ campaigns, so obliged zakat payers chose not to pay zakat through an OPZ.	4.2	4.7	3	4	Communities tend to give their zakat to lawful recipients directly; disruption to the growth of OPZs.	Conduct a zakat campaign through social media and provide financial reports on time; conduct zakat socialization through FOZ, BAZNAS and the Ministry of Religious Affairs.

Identification of Competition Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
5	Disharmony between BAZNAS and private OPZs.	5.3	5.3	4	4	Reduction in public confidence towards OPZ/BAZNAS; inhibition of the implementation of regulations and the growth of zakat.	Develop communication and good coordination; mutual respect and benefit-oriented; establishment of frequent communication between BAZNAS and OPZ.

Identification of Crime/Fraud Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Amil and mustahik manipulate the data.	2.4	4.3	2	2	Affects the credibility of the OPZ within the community.	Internal process control; strengthen internal audit.
2	Amil manipulate the data of muzaki or mustahik.	2.4	4.3	2	2	Decline in OPZ credibility and public trust.	Create a data verification SOP and online-based system.
3	Fake amil approach muzaki directly.	2.3	3.9	2	3	Decline in muzaki' trust in the OPZ.	Create an announcement system to muzaki regarding new HR changes; optimize the function of customer relations.
4	Robbery from zakat funds by amil.	1.9	3.8	2	2	Decline in muzaki' trust in the OPZ.	Improving office security functions; install CCTV in offices.
5	Forgery of data from prospective zakat recipients.	3.6	3.7	3	3	Distribution of zakat funds is not on target.	Develop an assessment form and mustahik survey.
6	Existence of a mustahik syndicate (which submits proposals for assistance to several OPZs).	4.7	2.9	3	3	Irregularities occur in the zakat distribution.	Build a single ID system of mustahik; synergy in mustahik data by all OPZs.
7	Amil who cannot be trusted in terms of time (late in distributing zakat to mustahik).	3.8	3.8	2	2	Mustahik receive zakat funds late; affects the reputation and credibility of the OPZ.	Create an SOP for zakat distribution; conduct internal audit; create a financial SOP related to CA (Cash Advance) Distribution.
8	Embezzlement of zakat funds directly by amil from muzaki.	3.3	4.5	2	3	Weakens the credibility of the OPZ and public trust in it; violations of regulations and Islamic law.	Conduct periodic internal audits; develop a notification system to muzaki of donations delivered via amil, the office or via an ATM; impose strict sanctions on zakat administration who violate the rules.

Identification of Crime/Fraud Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
9	Embezzlement of zakat funds directly by amil from muzaki.	3.3	4.3	2	2	Weakens the credibility of the OPZ and public trust in it.	Conduct periodic internal audits; impose strict sanctions on zakat administration who violate the rules.
10	Mustahik misuse the zakat funds (for example, to buy cigarettes).	4.5	3.6	3	3	Distribution of zakat funds is not on target; affects the reputation and credibility of the OPZ.	Provide counseling and education to mustahik; conduct periodic coaching; impose sanctions on mustahik if they break the rules.
11	Mustahik cannot be trusted.	5.3	3.5	3	3	The revolving fund program is less than successful; affects the reputation and credibility of the OPZ.	Mentor revolving fund recipients; develop an assessment form and survey of mustahik in the field; impose sanctions on mustahik if they break the rules.
12	The distribution of zakat through program implementation partners is irregular.	3.4	4.5	3	3	Weakens the credibility of the OPZ and public trust in it; violations of regulations and Islamic law.	The process of monitoring and evaluation needs to be improved; develop an online reporting system and make direct checks; impose sanctions.

Identification of Human Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Damage to OPZ operational facilities (tools) due to the negligence of amil.	3.8	3.3	2	3	Inhibited zakat distribution.	Perform regular maintenance; run basic training for users in using tools.
2	The OPZ office is broken into by thieves.	5.2	4.3	2	2	Loss of OPZ assets; lower OPZ performance; damage to OPZ reputation.	Improve office security functions; install CCTV in offices.
3	The workplace does not meet the standards.	5.3	3.6	3	2	Amil underperform; the level of comfort and the consistency of work quality of employees is disrupted.	Monitor and evaluate workplace conditions and ensure they comfortable; develop a standard form of workspace arrangement.
4	Amil are careless with regard to loss of zakat funds (due to their negligence).	3.1	4.6	3	3	Can interfere with zakat administrator activities and can take a long time to restore; can endanger amil and institutions.	Socialize compliance; create an SOP for the maintenance of work facilities; make early selective recruitment of amil; provide guidance to amil on the appropriate spirit and management.

Identification of Human Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
5	Amil make mistakes or commit crimes.	2.6	5.1	2	2	Reduction in the allocations to priority mustahik; use operational funds to overcome temporary losses.	Socialize compliance; create an SOP for the maintenance of work facilities; make early selective recruitment of amil; provide guidance to amil on the appropriate spirit and management.
6	Fire, human origin	3.7	5.0	3	5	Loss of facilities/infrastructure, assets and data; can endanger amil and institutions.	Take out insurance for all physical OPZ assets; provide APAR and evacuation guidelines; conduct debriefings on disaster management.
7	Lawsuit	3.8	5.0	2	2	Affects public trust in the OPZ; can endanger amil and institutions.	Prepare an SOPs that contain compliance with positive law.
8	Pollution (air, noise, etc	3.8	3.7	2	2	Loss of OPZ assets; reduced OPZ performance; affects the reputation of the OPZ.	Debriefing on disaster management; adoption of an SOP iredated to handling extraordinary events.
9	Riot	3.4	3.0	2	2	Loss of OPZ assets; reduced OPZ performance; affects the reputation of the OPZ.	Debriefing on disaster management; adoption of an SOP iredated to handling extraordinary events.
10	Sabotage	2.7	3.3	2	3	Interferes with OPZ operations; reduced OPZ performance; affects the reputation of the OPZ.	Anticipate the sabotage with a system; apply strict supervision and sustainability control.
11	Strike, boycott	2.2	2.8	2	2	Interferes with OPZ operations; reduced OPZ performance; affects the reputation of the OPZ.	Anticipate the strikes or boycotts with a system; apply strict supervision and sustainability control.
12	Terrorism	2.4	3.8	2	2	Interferes with OPZ operations; reduced OPZ performance; affects the reputation of the OPZ.	Anticipate the terrorism or boycotts with a system; apply strict supervision and sustainability control.
13	Corruption, Collusion and Nepotism	2.7	3.8	2	2	Interferes with OPZ operations; reduced OPZ performance; affects the reputation of the OPZ.	Anticipate corruption, collusion and nepotism with a system; apply strict supervision and sustainability control.

Identification of Economic Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Currency fluctuations.	5.3	4.0	3	2	Reducing the allocations to priority mustahik; disruption to the existence and growth of OPZs.	Reset the budget to be able to adjust OPZ cash flows.
2	Interest rate or price changes.	5.0	3.3	3	2	Reducing the allocations to priority mustahik; disruption to the existence and growth of OPZs.	Maintain internal stability; control external processes.
3	Political change.	4.8	3.9	2	2	Interferes with the existence and short/medium/long term growth of OPZs.	Apply an SOP for the handling of extraordinary events; maintain internal stability.
4	Population shifts.	3.8	2.9	2	2	Interferes with the existence and short/medium/long term growth of OPZs.	Prepare an anticipating respond by using a system, strict supervision, sustainability control
5	Preference shifts.	3.8	3.3	2	1	Interferes with the existence and short/medium/long term growth of OPZs.	Prepare an anticipating respond by using a system, strict supervision, sustainability control
6	Recession.	3.8	3.4	2	1	Interferes with the existence and short/medium/long term growth of OPZs.	Apply an SOP for the handling of extraordinary events; maintain internal stability.
7	Resource depletion.	3.6	3.4	3	1	Interferes with the existence and short/medium/long term growth of OPZs.	Apply an SOP for the handling of extraordinary events; maintain internal stability.
8	Technological changes.	4.3	3.6	2	2	Interferes with the existence and short/medium/long term growth of OPZs.	Provide updates on technological developments; Prepare an anticipating respond by using a system, strict supervision, sustainability control.
9	War.	3.1	5.2	2	2	Interferes with OPZ operations.	Provide updates on technological developments; Prepare an anticipating respond by using a system, strict supervision, sustainability control.

Identification of Natural Disaster Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Risk of lower zakat assets.	4.5	4.4	3	2	Loss of OPZ assets; interferes with operations and OPZ performance; operational costs are burdened.	Standard management of zakat assets; maintenance and the gradual recovery of assets.

Identification of Natural Disaster Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
2	Destruction of OPZ operational facilities (tools) not due to the negligence of amil.	4.2	3.7	2	2	Damage to OPZ assets; interference with operations and OPZ performance; operational costs are burdened; level of efficiency decreases.	Take out insurance for all OPZ physical assets; compile an inventory of all fixed assets.
3	Insurance for OPZ facilities is insufficient.	3.8	3.9	2	2	Damage to OPZ assets; interference with operations and OPZ performance; operational costs are burdened.	The annual budget arrangement should be related to the institution's infrastructure; develop standards for handling related conditions.
4	Collapse or gravity	3.8	3.7	2	3	Loss of OPZ assets; interferes with OPZ operations.	Coordinate with BNPT and BMKG; prepare employees by giving them briefings on disaster management.
5	Drought.	3.5	3.6	2	2	Interferes with the existence and short/medium/long term growth of OPZs.	Briefings on disaster management; insurance for all OPZ physical assets.
6	Earthquakes etc.	4.0	4.0	3	3	Disasters damage OPZ assets; affect OPZ performance; inhibition of zakat management activities (collection, management, distribution).	Insurance for all physical assets; debriefing on disaster management; adoption of an SOP related to handling extraordinary events.
7	Fire; natural disasters.	3.8	3.6	2	2	Loss of OPZ assets; interferes with operations and OPZ performance; operational costs are burdened.	Insurance for all physical assets; debriefing on disaster management; adoption of an SOP related to handling extraordinary events.
8	Floods.	3.9	3.6	3	3	Floods have a impact; can damage the assets; Affect on OPZ performance	Insurance for all OPZ physical assets; briefing on disaster management.
9	Rot.	4.0	3.4	2	3	Interferes with OPZ operations; affects OPZ existence and growth.	Coordinate with BNPT and BMKG; briefing on disaster management.
10	Temperature extremes.	4.0	3.4	2	3	Interfere with OPZ operations; affect OPZ existence and growth.	Coordinate with BNPT and BMKG; briefing on disaster management.
11	Vermin.	3.6	3.2	2	2	Interferes with OPZ operations; affects OPZ existence and growth.	Briefing on disaster management; insurance for all OPZ physical assets.
12	Windstorms, hurricanes, etc.	3.8	3.4	2	2	Interfere with OPZ operations; affect OPZ existence and growth.	Coordinate with BNPT and BMKG.

Identification of Amil Governance Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	No standardization of Good Amil Governance (GAG)	4.0	3.7	2	2	OPZs have no strong operational foundation.	The collaboration with the National Professional Certification Board to conduct competency tests on amil' performance; Developing a governance standard for amil
2	No structured or systemic amil training.	4.0	4.0	2	2	Ineffective amil quality improvement and the poor amil service.	The synergy with other OPZ in implementing a training of tiered amil
3	No explanation of the career path of amil.	4.6	4.2	3	2	High turnover of amil and the younger generation have little interest in working at OPZs.	The OPZ management's commitment in a professional career advancement; Arranging the standard of amil career path
4	Amil are paid below the standard rate.	4.5	4.5	3	2	Low work ethic and high turnover of amil	Making the wage standards according to the local minimum wage rate
5	Low quality amil.	4.8	4.8	3	2	Ineffectiveness of OPZ zakat management and reduced public trust.	Selectively choose amil as needed; amil competency should be evaluated.
6	The quality of candidates is limited.	5.4	4.3	3	2	The OPZ has class 2 HR.	Expand network/recruitment information; establish standards for amil qualifications.
7	OPZs are not the main choice for talented job seekers.	6.2	3.9	3	2	The OPZ has class 2 HR.	Make overall improvements in amil welfare.
8	Amil lack mastery of the process of zakat management.	3.4	3.8	2	2	Decline in OPZ credibility and public trust.	Conduct training in the management of amil; increase the best practice references of other OPZs.
9	Amil have not understood OPZ risks.	5.5	3.6	3	2	The OPZ has not been able to mitigate risks.	Conduct training in OPZ risk management; establish regulations on OPZ risk management.
10	Amil have not been able to measure OPZ risks.	5.7	3.6	3	2	The OPZ has not been able to mitigate risks.	Conduct training in OPZ risk management; establish regulations on OPZ risk management.
11	Amil have not been able to understand the Impact of OPZ risks.	5.3	3.8	3	2	The OPZ has not been able to mitigate risks.	Conduct training in OPZ risk management; establish regulations on OPZ risk management.

Identification of Amil Governance Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
12	Amil has not been able to measure the impacts of OPZ risks.	5.7	3.8	2	2	The OPZ has not been able to mitigate risks.	Conduct training in OPZ risk management; establish regulations on OPZ risk management.
13	OPZ amil are unfriendly.	2.5	4.0	2	2	Muzaki are not satisfied; zakat collection is ineffective.	Training in service excellence.
14	OPZ amil are not knowledgeable.	4.8	4.6	3	3	Muzaki are not satisfied; zakat collection is ineffective.	Include amil in in-house and external training.
15	OPZ amil are not very convincing in performing their duties.	4.3	5.0	3	3	Muzaki are not satisfied; collection of zakat is less than effective.	Conducting personality training; improve the quality of recruitment and training.
16	OPZ amil are not punctual and/or do not keep their promises (are undisciplined).	3.4	5.3	2	4	Affects the OPZ's reputation.	Create a disciplinary SOP; impose strict rule on working habits.
17	When evaluating project proposals that will be funded by the OPZ, amil are yet to be effective.	4.5	4.6	3	4	Risk of misdirection and inefficient programs.	Create a standardization SOP for proposal approval; conduct project management training.
18	In helping a project to empower the poor, amil are yet to be effective.	4.2	5.2	3	4	Ineffectiveness of the OPZ in managing zakat and decreased public trust.	Amil must have a certification of competency through LSP-BNSP; create an SOP for project assistance.
19	In monitoring projects funded by the OPZ, amil are yet to be effective.	4.1	5.2	3	4	Muzaki are not satisfied; collection of zakat is less than effective.	Create a project monitoring SOP; conduct project management training.
20	Jobs as amil are only second jobs.	3.8	5.3	3	4	OPZ has class 2 HR.	Devise full-time employee rules; prohibit amil from having a side job and pay them appropriately in line with their responsibilities.
21	Many choices of OPZ that can be chosen by talented amil.	5.3	4.3	3	3	Limited number of amil who apply for jobs.	Create a conducive atmosphere for volunteer amil to work in.

Identification of Amil Governance Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
22	The OPZ has not considered/ guaranteed the safety of amil when carrying out their duties.	3.3	5.7	2	3	Risk of losing amil.	Create a work safety SOP; collaborate with life insurance companies.
23	Amil have died.	4.3	3.6	2	3	Performance declines because other amil do not have the skills of those who have died.	The OPZ reserves operational costs for replacement purposes.
24	Amil have been fired.	5.5	3.9	3	3	Performance declines because other amil cannot replace those who have been fired.	The OPZ reserves operational costs for replacement purposes.
25	Amil have resigned.	5.5	3.8	3	3	Performance declines because other amil cannot replace those who have resigned.	The OPZ reserves operational costs for replacement purposes.
26	Amil are disabled.	3.0	4.5	2	3	Performance declines because other amil cannot replace those who are disabled.	Optimize insurance; the OPZ reserves operational costs for replacement purposes.
27	Gradual reduction in amil' ability or skills.	3.9	5.0	3	3	Ineffectiveness of OPZ in managing zakat and decreased public trust.	Conduct periodic training; Perform job rotation for amil

Identification of Volunteer Management Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Good volunteer governance has not been standardized.	5.3	4.7	3	2	Affects OPZ reputation and violates the professional code of ethics.	There should be management guidelines for volunteers; Create voluntary standards; create standards for volunteer work (a volunteer code of ethics).
2	Quality of prospective volunteers is limited.	6.1	3.9	2	2	Affects OPZ existence and short/medium/long term growth.	A recruitment process and sustainability training are needed; improve information on the needs of volunteers; make an initial selection of prospective volunteers as needed.
3	Screening of volunteers is inefficient.	4.8	4.3	2	2	Ineffective improvement in the quality of volunteers and low level of volunteer services.	Improve screening with an IT-based system.

Identification of Volunteer Management Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
4	Low quality of volunteers.	4.8	4.5	3	2	Affects OPZ existence and short/medium/long term growth.	Implementation of training and competency tests needs to be made; standardize volunteer training; make a routine training agenda.
5	Volunteers are not very committed to their work.	4.5	4.3	3	3	Muzaki are not satisfied; zakat collection is ineffective.	Make regular volunteer evaluation; devise standard work rules for volunteers.
6	No supervision of volunteers.	4.6	4.3	3	3	Muzaki are not satisfied; zakat collection is ineffective.	Create volunteer supervision standards; form a special team for managing employees.
7	Lack of communication between volunteers.	5.5	3.9	3	2	Inefficiency and ineffectiveness of resources.	Coordinate and consolidate periodical volunteers; agree on volunteer communication with amil; create a volunteer website and email group.
8	Lack of communication between volunteers and amil/managers.	5.3	4.4	3	2	Inefficiency and ineffectiveness of resources.	Coordinate and consolidate periodical volunteers; agree on volunteer communication with amil; create a volunteer website and email group.
9	The OPZ has not involved volunteers actively in its various programs.	3.9	3.4	2	2	Amil are too busy with one particular program; lack of control of other OPZ programs.	Include volunteers in OPZ activities; create a volunteer and OPZ MOU in every region.
10	The OPZ has not been able to communicate its vision, mission and goals to volunteers.	4.6	4.2	2	3	Reputation and the professionalism are compromised.	Hold regular meetings to communicate the vision and mission; socialization of the vision and mission.
11	The OPZ has not thought about/ensured the safety of volunteers when helping in the OPZ.	3.9	4.2	3	3	Risk to volunteer safety.	Create volunteer incentives; create a work safety SOP for amil and volunteers.
12	Many choices of OPZ that can be chosen by talented volunteer.	5.2	3.4	3	2	Limited number of volunteers who apply for jobs.	Improve the welfare of partner volunteers; devise an interesting program for volunteers .

Identification of Volunteer Management Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
13	Volunteers lack mastery of the process of zakat management.	4.5	3.9	3	3	Decline in OPZ credibility and public trust.	Conduct training in management for amil; extend best practice references to other OPZs.
14	There is no structured and systemic training for volunteers.	4.5	4.4	3	3	Ineffective improvement in the quality of volunteers and low level of volunteer services.	Collaboration between OPZs in providing volunteer training simultaneously.
15	OPZ volunteers are unfriendly.	4.0	4.2	3	2	Muzaki are not satisfied; zakat collection is ineffective.	Volunteers should adhere to service excellence.
16	OPZ volunteers are not very knowledgeable.	4.8	3.7	3	2	Muzaki are not satisfied; zakat collection is ineffective.	Run training for national volunteers.
17	OPZ volunteers are not very convincing in performing their duties.	3.9	3.8	3	2	Muzaki are not satisfied; zakat collection is ineffective.	Involve volunteers in international volunteer activities and provide quality reading references about vulnerability.
18	OPZ amil are not punctual/do not keep their promises (are undisciplined).	3.5	4.7	3	3	Muzaki are not satisfied; zakat collection is ineffective.	Run voluntary military-style basic training.

Identification of Muzaki Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Muzaki do not know how to calculate the a muzaki amount of zakat.	5.8	2.6	2	2	If the amount of zakat is excessive, then the status of the fund is not zakat, but infq or sadaqah, and if zakat is lower, then the muzaki have a right to the obliged zakat payer fund.	Provide zakat consultation services; conduct public socialization through the media owned by the institution.
2	Muzaki distribute their zakat to more than one OPZ.	6.2	2.7	2	2	The target of zakat collection is not reached; reduced collection amount; the influence of this is not very significant the medium/long term .	Make an attractive distribution program which can attract more donors.

Identification of Muzaki Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
3	Muzaki who cannot be identified (servants of Allah).	5.7	2.9	2	2	The OPZ cannot provide proof of a zakat deposit to the obliged zakat payer; there are many notes in the financial statements and it is difficult to determine the type of funds; has an influence on reporting aspects and the proof of accountability.	Trace the origin of the funds; use the system (virtual accounts, etc.)
4	Many muzaki pay zakat seasonally (at Ramadan).	6.8	3.1	2	1	Unstable collection; influence on performance collection and distribution; service levels increase seasonally.	Conduct public socialization through the media owned by the institution and/or external media.

Identification of Loss of Muzaki Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Tendency for muzaki to pay zakat independently.	5.5	3.7	2	1	Influence the performance of collection and distribution.	Devise an attractive distribution program; provide education to muzaki showing that the OPZ understands the mapping of mustahik.
2	Loyalty of muzaki to a certain OPZ is low.	4.5	4.1	2	1	Unstable collection.	Excellent service and reporting.
3	Muzaki move to another OPZ.	5.7	4.1	2	1	The zakat collection target is not reached; reduced collection.	Devise an attractive distribution program which can attract more donors; provide zakat consultation services.
4	Muzaki change status to that of non-obliged zakat payer.	4.2	3.3	2	1	The zakat collection target is not reached; reduced collection.	Devise an attractive distribution program; provide zakat consultation services; Provide business assistance of muzaki.
5	Muzaki change status to that of mustahik.	4.2	3.3	2	1	The zakat collection target is not reached; reduced collection.	Assist or cooperate with third parties related to the obliged zakat payer's business.
6	Muzaki are not familiar with OPZs.	5.3	3.9	2	1	The zakat collection target is not reached; reduced collection.	Public socialization by institutions using the media owned by them and/or external media.

Identification of Loss of Muzaki Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
7	Muzaki do not fully trust OPZs.	5.3	3.9	2	1	Unstable collection.	Conduct OPZ socialization as a professional zakat institution; provide education to muzaki showing that the OPZ understands the mapping of mustahik.
8	Muzaki do not fully understand the importance of paying zakat through OPZs.	5.3	4.1	2	1	Influences the performance of collection and distribution; service levels increase seasonally, usually only at Ramadan.	Provide education to muzaki showing that the OPZ understands the mapping of mustahik.
9	Muzaki had a bad view of OPZs.	5.0	4.1	2	2	The zakat collection target is not reached; reduced collection.	Provide excellent service; retain muzaki regularly.
10	Muzaki have had a bad experience with OPZs.	4.8	3.7	2	1	The OPZ is less effective at collecting zakat.	Provide assistance from amil; provide excellent service.
11	Muzaki are not sure that the mustahik are served by the OPZ.	5.2	3.7	2	2	Muzaki chose to distribute their own zakat.	Make reports on the use of funds that are regularly published for muzaki, providing information about the location of mustahik.
12	Muzaki have different views/madhab about zakat.	5.2	3.2	2	1	There may be a conflict between muzaki and the OPZ.	The role of the Board of OPZ Islamic Law should be to educate stakeholders; education provided by front office staff.
13	The wealth of muzaki has declined.	4.3	2.9	2	1	The collection target is not reached.	Retention of muzaki by OPZs can be achieved by praying that muzaki receive blessings from Allah.

Identification of Muzaki Satisfaction Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Muzaki are not fully satisfied with the OPZ service.	3.9	3.7	2	2	Muzaki move to another OPZ or chose to distribute their own zakat.	The high customer satisfaction standards; The excellent services of quality improvement
2	Muzaki demand excellent service from OPZs.	5.2	3.3	2	2	Muzaki move to another OPZ or chose to distribute their own zakat.	The SOP service of muzaki; the feedback of muzaki in capturing the expectations of OPZ service

Identification of Muzaki Satisfaction Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
3	OPZ services to muzaki are not very professional.	4.3	3.9	2	2	Muzaki are not satisfied; zakat collection is less effective.	The SOP service and the code ethics of muzaki; Referring to other more professional OPZs
4	Delayed services from amil to muzaki.	3.3	3.9	2	2	Decline in OPZ credibility and muzaki move to another OPZ.	Ensuring the implementation of policy and the procedures of excellent customer service which are in line with the quality policy standards
5	Failure of the muzaki service system (the office system of the muzaki service).	3.8	3.5	2	2	The risk changes; reduced collection performance; reputation risk	Create a strong online-based system; conduct periodic internal audits.
6	Lack of response from amil (amil) payer to community complaints (muzaki).	3.8	3.7	2	2	Decline in OPZ credibility and public trust.	Create a amil SOP for handling complaints from muzaki; conduct internal audit.
7	Lack of response from amil to the recommendations/suggestions from the community (muzaki).	3.5	3.6	2	2	Decline in OPZ credibility and public trust.	Provide excellent service; The maintenance of muzaki regularly

Identification of Mustahik Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	No standardization in verifying the mustahik in all programs.	2.7	3.8	2	2	Many funds are wrongly targeted; risk of incorrect distribution goals; distribution accuracy is disrupted.	Develop communication and collaboration between amil; create a verification SOP of mustahik in every program.
2	No indicators of mustahik welfare measurement.	3.8	3.4	2	2	Difficult to determine mustahik; failure to identify the development of mustahik; distribution accuracy is disrupted.	Conduct a satisfaction survey of mustahik and the research of the programs impact for mustahik; develop measurement indicators of mustahik welfare.
3	Mustahik receive zakat from several OPZs.	6.1	3.3	3	2	Unequal zakat funds distribution; difficult to determine mustahik; overlapping help.	Develop policy and excellent mustahik service procedures; encourage communication between OPZs and BAZNAS, such as by creating a mustahik single ID system.

Identification of Mustahik Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
4	Mustahik who have died still receive zakat.	1.9	2.3	2	1	Distribution of zakat funds is less effective; difficult to determine mustahik; risk of incorrect distribution goals; distribution accuracy is disrupted.	Strengthen the mustahik database and update the data; ensure communication between OPZs and BAZNAS.
5	Mustahik whose income has increased still receive zakat.	2.0	2.5	2	1	Distribution of zakat funds is less effective; difficult to determine mustahik; risk of incorrect distribution goals; distribution accuracy is disrupted.	Strengthen the mustahik database and update the data; ensure communication between OPZs and BAZNAS.

Identification of Loss of Mustahik Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	The location of mustahik is difficult to reach.	5.5	3.7	2	2	The zakat funds received by mustahik are late; more funds required to reach the goals; limited mustahik overage or high operational costs.	Open representative offices that are easily accessible by muzaki; collaborate with local representatives; ensure synergy between OPZs.
2	Mustahik are not identified by the OPZ.	4.0	3.2	2	1	The distribution of zakat funds is not equal; mustahik do not receive zakat; more funds required to reach the goals; the assessment and OPZ database weakness	Synergize with local community leaders; collaboration and social mapping between institutions.
3	The domicile of mustahik is not permanent.	5.3	2.7	2	2	Zakat funds are not distributed or are late; more funds required to reach goals; data validity risk of mustahik.	Strengthen community assistance and surrounding area; use a group based identity; socialization of mustahik.
4	Mustahik are shy about receiving zakat.	3.8	1.7	2	2	The basic needs of mustahik are not fulfilled and they are difficult to empower.	Develop a program of more innovative empowerment.
5	Mustahik do not know if they can receive zakat from the OPZ.	4.0	2.2	2	1	The basic needs of mustahik cannot be fulfilled; need for resocialization; no significant effect on distribution performance.	Provide education to mustahik; strengthen information systems as a database for managing zakat.

Identification of Loss of Mustahik Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
6	Mustahik are afraid to connect with the OPZ.	3.4	2.2	2	1	The basic needs of mustahik cannot be fulfilled.	Put in place a local facilitator as an OPZ representative.
7	Mustahik feel they have no right to receive zakat.	2.5	1.5	1	1	The basic needs of mustahik cannot be fulfilled.	Put in place a local facilitator as an OPZ representative.
8	Mustahik feel satisfied with what they have.	2.6	1.7	2	1	The basic needs of mustahik cannot be fulfilled.	Provide education to mustahik; put in place a local facilitator as an OPZ representative.
9	Mustahik do not have ID/KTP.	6.1	2.8	2	2	Mustahik cannot be served; difficult to make reports; data validity risk of mustahik.	Use the existing identity; coordinate with the government and related agencies to help mustahik.

Identification of Mustahik Satisfaction Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Lack of response to public and mustahik.	3.0	4.1	2	1	Decline in OPZ credibility and the public trust; distribution is delayed; reputation affected.	Create an SOP for handling the complaints of mustahik; provide service that is equal between muzaki and mustahik.
2	The lack response of amil to the recommendation/suggestion from community and (muzaki)	3.0	3.8	2	2	Decline in OPZ credibility and public trust.	Create an SOP for handling the advice and suggestions of mustahik; socialize the mechanisms of mustahik communication related to OPZ services.
3	Mustahik are dissatisfied with the OPZ service.	3.3	3.4	2	1	Distribution performance, OPZ credibility and service system affected.	Maintain relationships with all the beneficiaries who have been recruited by the OPZ.
4	Mustahik demand excellent service from OPZs.	4.1	2.4	2	1	HR investment, system and technology; Operational risk.	Develop a satisfaction standard for mustahik.
5	Delayed services from amil to mustahik.	3.8	3.1	2	1	Distribution performance and OPZ credibility are hampered; effect on reputation.	Monitor program progress; develop a standard of service for mustahik.
6	Mustahik service system failure.	3.4	2.9	2	1	Distribution is hampered; effect on reputation.	Strengthen the division that directly meets mustahik.

Identification of Ethics Code Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Muzaki give gifts to amil.	4.8	3.8	2	2	In the long term, amil will lose their sincerity.	Provide clear rules on the ethics code, punishment and reward; conduct stakeholder socialization related to the code of ethics of amil through the media.
2	Muzaki have not understood the rules of giving zakat (intention, hasten zakat payment, not riya' etc.)	4.0	2.5	2	1	The risk of not complying with Islamic Law.	Create a pocket book for muzaki containing zakat adab; provide education to muzaki; public socialization by institutions through the media.
3	Mustahik give gifts to amil.	2.6	2.5	2	2	Amil are less objective in determining mustahik.	Provide reward and punishment.
4	Mustahik have not understand the adab in receiving zakat (using it correctly, saying thank you etc.)	5.0	2.5	2	2	The risk of not complying with Islamic Law.	Develop policy and excellent mustahik service procedures; provide education to mustahik; provide regular coaching; conduct monitoring and evaluation.
5	Amil have not understood the rules of collecting zakat (being fair, honest, trustworthy, sincere etc.)	3.0	4.0	2	2	Breaking the code of ethics and Islamic law compliance.	LAZ needs to standardize its SOPs based on ISO; provide training and education for all amil; train amil regularly.

Identification of International Zakat Transfer Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	There is no internationally accepted zakat management standard.	4.3	2.7	3	2	Delayed international zakat transfers.	Synergy in zakat by OPZs across countries.
2	The donor and recipient countries have different zakat standards	5.2	2.5	3	2	Delayed international zakat transfers.	Actively participate in ZCP development; compile a draft of an International Standard of Zakat Management.

Identification of International Zakat Transfer Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
3	Country risk is high in the recipient country.	4.2	3.3	3	2	Zakat is not distributed to the expected mustahik.	Open up information as much as possible to the cross-border OPZ government.
4	There is no assessment of country or transfer risk by institutions in certain countries.	4.2	2.4	3	2	The donor country has been reluctant to transfer zakat to the recipient country.	Develop management standards and other aspects that support international cooperation.
5	The donor and recipient countries are reluctant to share confidential information.	4.8	3.2	3	2	The donor country has been reluctant to transfer zakat to the recipient country.	Conduct management risk analysis before deciding on collaboration.
6	The donor country has not been able to assess the level of poverty in the prospective recipient country.	3.9	3.1	3	2	The donor country has been reluctant to transfer zakat to the recipient country.	Open up information as much as possible to the cross-border OPZ government.
7	The model and analysis of country and transfer risk by zakat institutions in each country are not available.	5.2	4.2	3	2	The donor country has been reluctant to transfer zakat to the recipient country.	Create synergy with trusted parties, domestic NGOs, international NGOs, and cross-country representation.
8	The zakat institutions in the donor and recipient countries have not yet agreed on the managerial fee distribution of the amil.	5.2	3.6	3	2	Risk to Islamic law compliance and propriety; delay to cooperation and cross-country activity.	Develop institutions as international NGOs and establish synergies with partners in other countries in terms of joint program collaboration.
9	There is no zakat institution in the donor or recipient country.	5.3	3.2	3	2	Absence of policy and process for mitigating country and transfer risk.	Develop institutions as international NGOs and establish synergies with partners in other countries in terms of joint program collaboration.
10	BAZNAS in the donor and recipient countries have not developed a policy or process for mitigating country and transfer risk.	4.8	3.8	3	2	Incompatible systems, inhibiting cooperation and cross-country activity; inhibition of zakat transfers between countries.	Develop various program associations both internationally and nationally in order to expand and facilitate the distribution of cross-country programs.

Identification of Reporting Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	The form of OPZ zakat reports to standard stakeholders is not yet available.	3.1	3.5	2	2	The form of reports is not the same and the credibility of the OPZ declines.	Agree on the standard form of zakat reports to stakeholders.
2	Lack of professionalism in compiling OPZ zakat reports.	3.0	4.8	2	2	Reports are not very interesting; decline in the trust of muzaki of zakat managers (a form of transparency).	Decide standard requirements for OPZ accounting team recruitment.
3	OPZ zakat reports are not made periodically (continuously).	3.2	3.8	3	2	Reduced OPZ credibility and trust of muzaki.	Create an SOP for the determination of zakat reporting; make adjustments to the standards laid down in government regulations.
4	Periodic delays in OPZ zakat reports to stakeholders.	3.8	3.8	3	2	Reduced OPZ credibility and trust of muzaki.	Create an SOP for reporting zakat; It is set in the SOP and made special structures in the database system.
5	OPZ zakat reports are not very valid/accurate.	3.5	4.6	3	2	Reduced OPZ credibility; reputation and OPZ accountability affected.	Periodic reviews made by the asset division leader; adapt to the reporting standards of BAZNAS and the Ministry of Religious Affairs.
6	OPZ zakat reports are not audited by KAP.	2.1	4.9	2	2	Reduced OPZ credibility and trust of muzaki.	Create an SOP and KPI which stipulate that reports must be audited by KAP.
7	OPZ zakat reports are rarely published.	3.4	3.6	2	2	The community lacks knowledge about OPZs.	Utilize social communication and network media.
8	National and branch OPZ zakat reports are not synchronized.	3.2	4.5	3	2	OPZ accountability is weakened in the community; lower OPZ credibility.	Use an online-based system; hold internal and public audits; establish an of SOP for institutions related to reporting.
9	BAZNAS and private OPZ reporting of zakat is not synchronized.	5.2	4.1	3	2	Decline in BAZNAS credibility and public distrust.	Create a reporting standard; data synchronization through semester reporting.
10	OPZ zakat report do not exist in electronic form.	2.2	4.6	2	2	OPZ zakat reports cannot be accessed.	Agree on the standard form of zakat reports to stakeholders in electronic form.

Identification of Reporting Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
11	OPZ zakat reports are not complete or detailed.	2.7	4.4	2	2	OPZ accountability is not acceptable within the community.	Ensure standardization of reporting by OPZ and BAZNAS.
12	OPZ zakat report are not sent to stakeholders.	2.8	4.1	2	2	Lower public/muzaki trust.	Utilize social media; use institutional resources, make provision for feedback services to institutions.

Identification of Recording Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	Takes a long time to record incoming zakat funds.	2.8	3.8	2	3	The delay and lack of validity of the OPZ periodic report to stakeholders	Creating an online based system; Adjusted to PSAK Zakat
2	The absence of sharia transaction guide of OPZ from PSAK 109 (such as PAPSII for Indonesia Sharia Banking Accounting Guidelines).	3.1	3.9	2	2	The delay and lack of validity of the OPZ periodic report to stakeholders; OPZ has different standards	Training by an expert; the internal teams are included to the related training; Opening the information on government policies
3	Risk from the muzaki accounting method on an accrual basis.	3.6	3.6	2	2	The inaccurate calculation of muzaki	A review by the supervisor/accounting expert; Adjustment to zakat management guidelines and PSAK Zakat
4	OPZ accounting methods (cash basis) not in line with the accounting method of the muzaki (accrual basis).	3.4	3.4	2	2	High cost of transferring accounting practices from an accrual basis to a cash basis, or vice versa.	Hold reviews by supervisors/accounting experts; adjust to the zakat management guidelines and PSAK zakat.
5	Complexity of centralizing zakat recording from OPZ branches to OPZ headquarters.	3.8	3.6	3	2	Recording in OPZ headquarters is not yet valid; performance is hampered if the system is not solid.	Create an online-based system; adjust to the zakat management guidelines and PSAK zakat.
6	Close relationship between amil and internal OPZ audit.	2.8	3.4	2	3	Late reports of zakat collection.	Define a clear boundary/code of ethics; conduct periodic evaluation and job rotation.

Identification of Recording Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
7	Close relationship between amil of the program executors and internal OPZ audit.	2.8	3.1	2	3	Late report in the accountability program.	Define a clear boundary/code of ethics; conduct periodic evaluation and job rotation.
8	Presentation of the OPZ assets and zakat funds in financial statements is not done separately.	3.8	4.1	2	2	Interferes with aspects of accountability in the short/medium/long term.	Make presentations according to the standards (PSAK 109); adjust to the zakat management guidelines and PSAK zakat.

Identification of Legal Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	A law or regulations that require muzaki to pay zakat is not available.	4.5	3.8	3	2	The community is not obedient or is reluctant to pay zakat.	Provide education to the public about the obligation to pay zakat in compliance with the provisions of Islamic law.
2	Strict sanctions by the Government on muzaki who do not pay zakat are not available.	4.5	4.1	3	2	There are still many Muslims who have not carried out their obligation to pay zakat.	Develop OPZ initiatives for attracting the interest of muzaki; improve organizational governance.
3	Zakat is not deductible to income tax (only deductible to taxable revenue).	4.5	3.6	3	2	Reduces the interest of the public in paying zakat, especially through OPZs.	Continue to socialize and encourage regulations on muzaki, together with regulations on tax deduction in upcoming laws.
4	Laws and regulations on zakat management are not clear.	4.3	3.6	3	2	Ineffective management of zakat by OPZs.	Actively make proposals on the latest zakat regulations; actively coordinate with various regulator stakeholders.
5	Laws and regulations on zakat management are ambiguous and have multiple interpretations.	5.2	4.1	3	2	Ineffective management of zakat by OPZs.	Undertake various legal advocacy activities related to zakat regulation; follow the applicable rules and regulations.
6	Laws and regulations on zakat management are too rigid.	4.9	4.0	3	2	Ineffective management of zakat by OPZs.	Actively coordinate with various regulator stakeholders in order to develop zakat regulations.

Identification of Legal Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
7	Laws and regulations are difficult to implement by OPZs.	4.5	4.3	2	2	Ineffective management of zakat by OPZs.	Adjust implementation in the field; hold intense communication with zakat regulator stakeholders: socialization facilitated by zakat regulators.
8	Laws and regulations give less freedom to OPZs.	4.5	3.9	3	2	Ineffective management of zakat by OPZs.	Hold intense communication with the zakat regulator stakeholders: socialization facilitated by zakat regulators.
9	New laws and regulations on zakat introduced.	4.5	4.5	3	2	OPZ zakat management is disrupted by the adjustment to new laws and regulations.	Make adjustments to implementation in the field as long as they do not break the laws and regulations; Following all the Zakat Law amendment (adjustment).
10	Lack of government support for the implementation of the existing laws and zakat regulations.	5.2	4.6	3	2	OPZ zakat management becomes less effective.	Conduct various legal advocacy activities related to zakat regulation with consultants and authorized parties.
11	New laws and regulations regarding zakat have not yet been socialized.	4.5	3.8	3	2	Adjustments are slow and OPZ zakat management is disrupted.	Develop a pattern of zakat management partners in terms of program synergy among OPZs.
12	Risk of political uncertainty.	4.7	4.3	3	2	OPZ zakat management is hampered.	Strengthen the stability of organizational management; implement a SWOT in the preparation of the annual OPZ Strategic Plan.
13	Law enforcement as stated in zakat law is poor.	5.3	4.2	3	2	Decline in OPZ reputation.	Actively coordinate with various regulator stakeholders in order to develop zakat regulations; show obedience by supporting government policies.
14	Derivative regulations from the laws are yet to be completed.	4.1	3.8	3	2	OPZ zakat management is hampered.	The zakat forum and related parties should propose a draft to be accommodated in the regulations.
15	Instructions on the implementation of zakat management are not available.	4.2	3.6	2	2	OPZ zakat management is hampered.	Continue to socialize and encourage the implementation of instructions on zakat management.

16	The permit risk (legality) that varies from region to region	4.6	3.9	3	2	OPZ zakat management is hampered.	Actively coordinate with various stakeholders related to licensing, at headquarters, with branch representatives, and with local community leaders.
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Identification of Sharia Compliance Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	OPZ DPS competency is low.	1.9	5.1	2	2	Low compliance with OPZ Islamic law and lower OPZ credibility.	Conduct Fit and Proper tests with DPS candidates.
2	DPS members work in many institutions.	4.5	2.9	2	1	Ineffectiveness of DPS work and low compliance with OPZ Islamic law.	Hold periodic meetings with DPS; issue statements that bind both parties (OPZ and DPS) in advancing related OPZ.
3	The view of DPS Islamic law varies between OPZs.	3.7	3.0	2	1	The variety of Islamic law provisions used by OPZs confuse the public.	Match the orientation of the vision, mission, goals and fiqh ziswaf between DPS and OPZ.
4	No regulations on the implementation of Islamic law audits.	4.6	3.6	2	1	The variety of Islamic law provisions used by OPZs confuse the public.	Set a compliance standard with internal Islamic law as a basis for organizational performance.
5	No standard OPZ guide on the operation of internal Islamic law.	3.1	4.0	2	1	Low compliance with OPZ Islamic law and lower OPZ credibility.	Set a compliance standard for Islamic law; establish a compliance division.
6	No standard OPZ guide on internal Islamic law audit.	5.1	3.6	2	1	Low compliance with OPZ Islamic law and lower OPZ credibility.	Establish a compliance division together with related parties; compile an audit guide on internal Islamic law.
7	Islamic law audit standards have not been implemented nationally.	6.0	3.6	2	1	The variety of Islamic law provisions used by OPZs confuse the public.	Encourage improvement in DPS competencies with various forms of support; preparing an audit guide for national Islamic law.
8	No public/private institutions (KAP) that authorize and/or are competent in conducting Islamic audits.	5.0	3.4	3	1	OPZ reports have not been audited by Islamic law; low level of OPZ Islamic law compliance.	Encourage the formation of the MUI DSN in the DPS ZISWAF; divide up duties, audit of Islamic law and financial audit; strengthen the compliance divisions and internal audit.

Identification of Sharia Compliance Risk		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
9	OPZ leaders have poor understanding of Islamic law and zakat Fiqh.	2.3	5.7	2	2	OPZ management may break Islamic law.	Conduct a Fit and Proper test of prospective leaders, including knowledge of Islamic law and Fiqh zakat.
10	Amil such as zakat collectors lack understanding of Islamic law and zakat Fiqh.	2.4	5.5	2	2	Zakat collection can break the Islamic law.	Standardize the requirements for zakat collectors, including knowledge of Islamic law and zakat Fiqh.
11	Amil such as zakat management lack understanding of Islamic law and zakat Fiqh.	2.4	5.3	2	2	The zakat management can break the Islamic law determination	Standardize the requirements for zakat collectors, including knowledge of Islamic law and zakat Fiqh.
12	Amil working in zakat distribution lack understanding of Islamic law and zakat Fiqh.	2.8	5.3	2	2	The zakat distribution can break the Islamic law determination	Standardize the requirements for zakat collectors, including knowledge of Islamic law and zakat Fiqh.

Identification of Regulatory Compliance		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
1	OPZ leaders do not understand zakat regulations.	1.7	5.9	3	2	OPZ management may break zakat regulations.	Conduct a Fit and Proper test on prospective leaders, including knowledge of zakat regulations.
2	Zakat collectors do not understand zakat regulations.	2.8	5.0	2	2	Zakat collection may break zakat regulations.	Standardize the requirements for zakat collectors, including knowledge of zakat regulations.
3	Zakat managers do not understand zakat regulations.	2.8	5.0	2	2	Zakat management may break zakat regulations.	Standardize the requirements for zakat managers, including knowledge of zakat regulations.
4	Zakat distributors do not understand zakat regulations.	2.8	5.0	2	2	Zakat distribution may break zakat regulations.	Standardize the requirements for zakat distributors, including knowledge of zakat regulations.
5	BAZNAS is the only national zakat manager which is assisted by OPZs.	3.2	4.3	2	2	Disharmony in the BAZNAS - OPZ relationship.	OPZ adjustment referring to laws and regulations.

Identification of Regulatory Compliance		Overall				IMPACTS	MITIGATIONS
		L	I	V	S		
6	National OPZs may only have one representative in each province.	4.3	4.1	3	2	Adjustments are slow and zakat management is disrupted; OPZ expansion is limited; zakat management is less than optimal.	Adjustment in the field as long as laws and regulations are not broken.
7	The OPZ has not been able to adjust within 5 years (25 November 2016).	3.2	3.3	2	2	OPZ zakat management is disrupted; decline in OPZ credibility.	Adjustment in the field as long as laws and regulations are not broken.
8	All informal zakat managers, such as those of DKMs or mosques, must be OPZ UPZs, BAZNAS or MPZs.	4.9	3.5	2	2	OPZ zakat management is disrupted; the absence of legal formal for all zakat management institutions	Adjustment in the field as long as laws and regulations are not broken.
9	No supervisory devices by BAZNAS in place.	4.9	3.9	3	2	Enforcement of rules and supervision has yet to be made; risk of operational oversight of zakat management.	Related parties should encourage the establishment of a monitoring device; hold intensive communication with BAZNAS; BAZNAS provides zakat management guidance handbook.
10	The dualism of zakat, BAZNAS and the Ministry of Religious Affairs.	5.4	4.5	3	2	Disharmony in the relationship between BAZNAS - KEMENAG and the existence of conflicts of interest; ambiguity of command and authority.	Establish coordination and communication with both parties related to the problem; hold intensive communication with BAZNAS and the Ministry of Religious Affairs.
11	The dual role of BAZNAS as a regulator/authority and an operator.	5.4	4.8	3	2	The OPZ is not free to implement its programs because it is subject to policies on the BAZNAS side; Superbody, conflicts of interest	Encourage the role of BAZNAS in coordinating national zakat management, not as operators but to enhance the zakat movement.

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