

Chapter 5

Expectation vs Reality: Evidence from Indonesia's Cash *Waqf* Implementation

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Introduction

Indonesia is an emerging lower middle-income country. It is still facing problems of poverty, and until September 2019, the number of poor people Indonesia was 24.79 million, that is around 9.2% of the population. Poverty is closely related to income inequality, so a reduction in the level of inequality should coincide with the goal of economic growth and show the effects of fair national development. Even though it has not shown a significant decrease, the level of inequality in Indonesia's population as measured by the Gini index was 0.382 in September 2019. Therefore, in this research, we are trying to see if there is a possibility that *Waqf*, as an Islamic social funding instrument, especially Cash *Waqf*, can play a significant role in reducing inequality as it should do.

In this research, we used a mixture of qualitative and quantitative methods based mostly on primary data. We collected quantitative data from three parties. The first party were *Wāqifs* or potential *Wāqifs* who were selected by asking the Islamic banks to select loyal customers to be a potential *Wāqifs*; for the second party we used Islamic banks licensed to receive Cash *Waqf*; and for the third party we used *Nāzirs* from *Waqf* institutions in Indonesia.

We also conducted qualitative research using in-depth interviews

with fifteen respondents from Islamic banks and also government institutions like Otoritas Jasa Keuangan (OJK)/Financial Service Authority, the Indonesian government agency, which regulates and supervises the financial services sector.

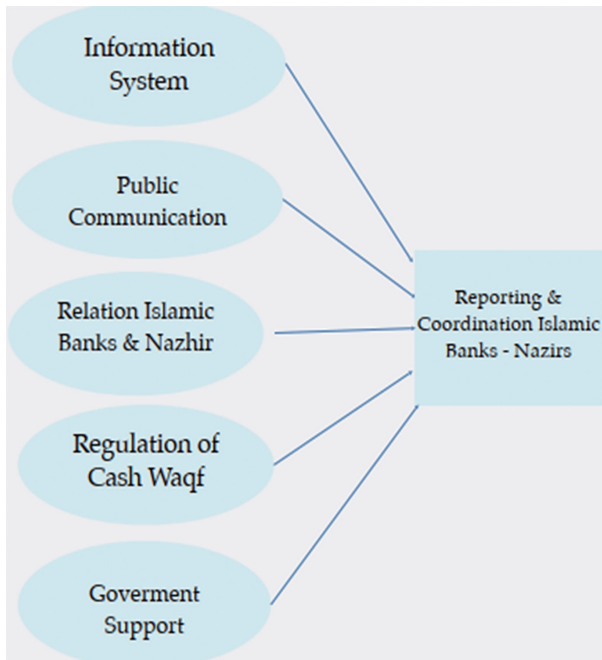


Figure 1. Structural Equation Model (SEM) of Islamic banks from the *Nāzirs*' perspectives

Source: Author

In this study I will only focus on the issue of governance. Specifically, the information system, public communication, the relationship between the Islamic banks and *Nāzirs*, the regulation of Cash *Waqf*, and government support, leading to reporting and coordination between the bank and the *Nāzirs*.

Compared to *Zakāt*, *Waqf* is considered more effective and flexible in assisting *Waqf* beneficiaries or *Mawqūf 'alaih*. This is due to the nature of *Waqf* which is not bound by time (except for temporary *Waqf*), where the benefits of *Zakāt* can be felt by the eight *Aṣnāf* (categories of *Zakāt* recipients) who have a certain designation within a certain period, while the benefits of *Waqf* can be more flexibly used for increasing individual productivity, thereby increasing the feasibility of *Waqf* beneficiaries' lives.

In addition to the direct benefits of *Waqf* assets being felt by *Mawqūf 'alaih*, *Waqf* funds also have indirect benefits, especially through the development of education and health facilities. This encourages an increase in human resources who are more productive, innovative, ready to work, and highly motivated. In this way, *Waqf* has the potential to reduce poverty in the long term.

(1) Role of Islamic Banking

The role of Islamic Banking is as an Islamic Financial Institution which is licensed to collect Cash *Waqf* / LKSPWU. The public hopes that Islamic banking will play an important role, especially because it prioritizes moral values rather than capitalism, and can bring community banking values by providing services to the community. An Islamic bank does not just make the community a target market, but it provides responsible financial services which do not trap people into excessive debt, and encourages ethical investment and corporate social responsibility initiatives, as well as creating stability by linking financial services to the real economy sector (Asutay 2008).

That is why we focus on Islamic banking to support Cash *Waqf* collection, but there are some issues here and that is why we put emphasis on research, civic banking and *Waqf* collection.

(2) Islamic Banking and Trust Issues in Managing *Waqf*

As part of a financial institution within the framework of the Islamic economy, Islamic banking is not only required to generate profits but also to carry out social functions as mandated by Law No. 21 of 2008 concerning Islamic banking based on *Maqāṣid aš-Šarī'a*.

Article 4 states that an Islamic bank can carry out social functions in the form of a *Baitu l-māl* institution by receiving funds originating from *Zakāt*, *Infāq*, alms, grants, or other social funds and collecting social funds from *Waqf*. Furthermore, Islamic banks can channel these funds to *Zakāt* organizations and *Nāzirs* as *Waqf* managers.

To ensure the sustainability of the social funds, the efficiency of the governance of the funds must be supported by trust and supervisory functions. Information flow is then useful for building trust between governance structures and individuals, which has the impact of moderating the effectiveness of trust-based governance.

Trust is the essential element of Islamic teaching that should be regarded as social capital, and its sustainability must be guaranteed as a mechanism to ensure that a *Waqf* continues to operate efficiently.

If a *Waqf* is not managed in a trustworthy and professional way, the community will lose trust in the *Waqf* institution, which will cause *Waqf* to be inefficient and ineffective.

(3) The Potential (Expectation) vs Actual of Cash *Waqf* Collection

Now, we come back to the main issue, how the potential for *Waqf*, or what we call the “expectation” compares to the actual Cash *Waqf* collection. In Indonesia there are some serious issues regarding the Cash *Waqf* movement launched by President Jokowi, and here we need to

focus on why there is such a big gap between the potential and actual amount of *Waqf* collected.

There has been a lot of research regarding the potential or the expectation for gathering participation.

BWI/ The Indonesian Waqf Board (2021) believes that potential Cash *Waqf* in Indonesia reaches IDR 180 trillion per year.

- Noor (2015) confirmed the amount of Cash *Waqf* potential was IDR 120 trillion per annum.

- Nizar (2017) estimated Cash *Waqf* potential reached IDR 985 billion per month or IDR 11.82 trillion per annum.

- Nasution and Hasanah (2006) estimated IDR 3 trillion per annum.

However, based on the data from the Ministry of Religious Affairs the annual collection of Cash *Waqf* in 2018 was IDR 31.9 billion. On January 24, 2021, the Indonesian Waqf Board announced that the total collection of Cash *Waqf* until January 2021 was IDR 819.36 billion (BWI's website) from 70 *Nāzirs* out of 264 *Nāzirs* of Cash *Waqf* through 23 Islamic banks licensed to receive Cash *Waqf*.

So, here we have the potential and the actuality of Cash *Waqf*. The main issue here is why the expectation versus the reality is so different.

(4) Implementation and Problems

We tried to understand the implementation of the Cash *Waqf* on a daily basis and identify the problems. First of all, in its implementation, Cash *Waqf* is carried out in stages. The first stage of fundraising involves the participation of the *Wāqifs* to donate to their *Waqf* funds. In the second stage, the Islamic banks manage the Cash *Waqf* funds under their investment decisions or send the Cash *Waqf* to the *Nāzirs* directly and let them manage the funds productively. The final stage is the distribution of the benefits of the Cash *Waqf* funds to *Mawqūf 'alaih*

(beneficiaries) through collaboration with the *Nāzirs*.

In Indonesia, the Ministry of Religious Affairs has the authority to grant a Cash *Waqf* license to Islamic banks to receive and manage Cash *Waqf*. Ideally, the Cash *Waqf* fund should not be managed directly by a *Nāzir* but in reality, the Cash *Waqfs* collected by Islamic Banks are managed by the *Nāzirs* of *Waqf* Institutions. The Cash *Waqf* also goes to the Islamic banks' *Waqf* deposit funds using a *Wadī'a* contract in the *Nāzir's* account designated by the *Wāqif*. In some practices, Cash *Waqf* collected by Islamic Banks is sent directly to the *Nāzir's* Specific *Waqf* Projects such as education, health, and sanitation, etc.

This research focuses on the governance of Cash *Waqf* which is proxied by reporting and coordination behavior from Islamic banks licensed to receive Cash *Waqf* and from *Nāzirs*.

The study of this topic is essential because “reporting and coordination behavior” from Cash *Waqf* institutions encourages and increases the trust of the public, which will further encourage their participation in the development of Cash *Waqf*.

1. Methodology

This study used an online survey to investigate the determinant factors of reporting and coordination behavior of Islamic banks and *Nāzirs* in Indonesia. The questionnaire was divided into two components, first general statements related to respondents' institutional information; second, six variables, namely report and coordination (three indicators), system information (seven indicators), relation (three indicators), government support (five indicators), regulation (five indicators), and public communications (five indicators). In total, 35 questions were used to investigate Cash *Waqf* governance in Indonesia.

In the primary data collection design, this study used two

approaches. The first method was a quantitative approach to test the hypothesis by conducting a survey using a questionnaire with respondents representing Islamic banks and *Nāzirs*. The second method was a qualitative approach to validate the model by conducting focus group discussions with related stakeholders.

We employed 17 Islamic banks as respondents. The online survey questionnaire was distributed to 21 Islamic banks and 264 *Nāzirs* registered at the Indonesian Waqf Board as of December, 2020.

However, only 17 questionnaires from Islamic banks were submitted because four other Islamic banks did not have Cash *Waqf* products. Meanwhile, only 11 *Nāzirs* who actively participated fulfilled the questionnaire. This condition was anticipated because, from a focus group discussion with the Indonesian Waqf Board (BWI), BWI recommended 14 *Nāzirs* as respondents because of the BWI's experiences concerning the annual reports from *Nāzirs*. Even though there are 264 registered *Nāzirs*, only 14 *Nāzirs* regularly send the annual report to BWI until the end of 2020.

As a result, it was fairly difficult to fulfill our requirements because our questions about the financial reporting were quite detailed. Unfortunately, by the end of the research, we had only received completed questionnaires from 11 *Nāzirs*. This is quite shocking because this means 11 out of 264 *Nāzirs* in Indonesia.

The analytical method we used to test the hypothesis was structural equation modeling (SEM). This is due to a positive relationship between fundraising activities with performance and impact including *Waqf*. The research hypotheses are as follows:

1. The relationship between Islamic Banks and *Nāzirs* has a positive effect on the reporting behavior and coordination of Islamic Banks with *Nāzirs* for Cash *Waqf*. Here Islamic banks and *Nāzirs* are coordinating so we have two parties in this research,

2. Government support has a positive effect on the reporting behavior and coordination of Islamic Banks with *Nāzirs* of Cash *Waqf*.
3. Cash *Waqf* regulation has a positive effect on the reporting behavior and coordination of Islamic Banks with *Nāzirs* of Cash *Waqf*.

(1) Results of SEM

The results revealed that there are three final variables, which are significant to the report and coordination between Islamic banks and *Nāzirs*, namely relationship, government support, and regulation.

The R square value is quite promising at around 75.8%, which means that the remaining 24.2% is explained by variables outside the model.

(2) The Conceptual Framework of the Study

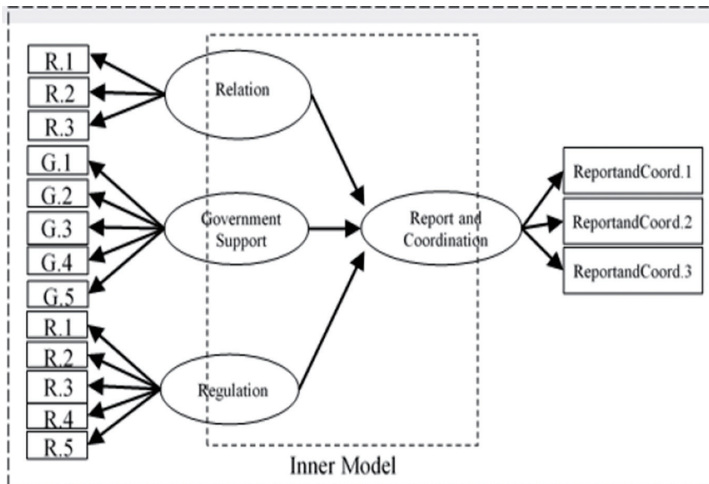


Figure 2. Outer Model of the Exogenous Latent Variables

Source: Author

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Finally, we have three sub-variables. Four for relationships, five for government support, and five for regulation. We used in-depth interviews, and there were relatively few. We found that the Regulation of the Minister of Religious Affairs (MoRA) No. 4/2009 Article 11 regulates how the MoRA guides Islamic banks during the supervisory process. However, the regulation does not specifically explain how the Indonesian Waqf Board has the authority to grant *Nāzirs* a Cash *Waqf* management license and provide guidance to the *Nāzirs*.

Then we found that Waqf Core Principle No.8 (WCP-8) states that the *Waqf* supervisory board can take over and restrict the licenses of Cash *Waqf* institutions. However, Cash *Waqf* regulations in Indonesia do not specifically define the consequences for Cash *Waqf* institutions that provide non-compliance reports. Hence, the *Waqf* supervisory board cannot implement this guidance in Indonesia.

In WCP-8 states that the *Waqf* supervisory board has to regularly assess *Waqf* institutions regarding financial reports, *Waqf* collection methods, investment - distribution models, and the implementation of good *Waqf* governance. However, the reality is not like this at all. The *Waqf* supervisor needs to evaluate the audit results of the *Waqf* institution. In Indonesia, MoRA No. 4/2009 Article 8 states that each Islamic bank is obliged to submit Cash *Waqf* financial reports at the end of each financial year to the Minister of Religious Affairs and the Indonesian Waqf Board. However, in reality, there were only 14 *Nāzirs* who regularly submitted the report, and in our research only 11 of these *Nāzirs* fulfilled the requirements of our questionnaire. The Financial Services Authority regulation dictates that Islamic banks are required to report their sources of *Zakat* and *Waqf* funds, the distribution, and their financial performance. However, in reality, the supervision of *Nāzirs* was unsatisfactory mainly because from the 264 *Nāzirs* registered with the Indonesian Waqf Board (BWI) as of December 2020, only 14 of

them regularly provided financial reports to BWI.

(3) Findings

We summarized the institutional factors of Islamic banks and *Nāzirs* that play an important role in encouraging the development of Cash *Waqf*. In the case of having a special unit for managing Cash *Waqf*, 54.5% of *Nāzirs* and 23.5% of Islamic banks form a special unit for Cash *Waqf*. The rest of them are mostly in Islamic banking, but they do not have a special unit for managing Cash *Waqf*.

In terms of human resources, 45.5% of *Nāzirs* separated the human resources of the admissions division, the management division, and the distribution division with other divisions and 72.7% of human resources in the reporting division were also separated from other divisions.

Meanwhile, around 23.5% to 35.3% of Islamic banks separated the human resources of the receiving, management, distribution, and reporting division of Cash *Waqf* from the human resources of other divisions. This shows that around a third of Islamic banks really care and make a separate division for Cash *Waqf*.

36.4% of *Nāzirs*' financial reports were not audited by a public accounting firm and 45.5% of *Nāzirs* were predicated as unqualified. Meanwhile, the remaining 18.2% of *Nāzirs*' financial statements were predicated as "disclaimer of opinion," the most serious level of unacceptability. So, from 264 only 14 regularly report and 11 complied with our research, and from that 11 there were 20% of *Nāzirs*' financial statements that were predicated as "disclaimer of opinion" and 36.4% of *Nāzirs*' financial reports had not been audited by a public accounting firm. This is a very shocking finding indeed.

Based on our research, we found that managing Cash *Waqf* as a productive business is challenging. If the company fails, the corpus

funds from Cash *Waqf* will erode the principal. This makes it difficult for *Nāzirs* to submit their annual reports to BWI. Cash *Waqf* investments take a long time to yield results, usually from 5 to 20 years, depending on the scope of the project. As a result, only a small percentage of *Nāzirs* regularly submit their reports. This is a concerning finding that requires further attention.

(5) Implication of Governance Issues (Reporting & Coordination) of the Cash *Waqf* Collections

The collection of Cash *Waqf* is very low compared to its potential because:

- The Cash *Waqf* governance dept. of Islamic banks has not fully cooperated in the collection of Cash *Waqf*.
- Islamic banks still have not given proper attention to support Cash *Waqf* by designating a specific budget for Cash *Waqf* socialization and promotion.
- There are not many Islamic banks with human resources specialized in managing Cash *Waqf*.
- *Nāzirs* have little awareness of the importance of Cash *Waqf* transparency, therefore only a small number of *Nāzirs* provide annual and financial reports to the Indonesian Waqf Board, the Ministry of Religious Affairs, as well as reports to the public.
- Mostly selected *Wāqifs* who are loyal customers of Islamic Banking stated that they did not have enough information concerning the Cash *Waqf* program from the Islamic Bank officers. They knew and had heard about Cash *Waqf* programs from other sources.

What were the reasons why we asked the loyal consumers of Islamic Banking to be the selected respondents for this research?

We thought that for *Waqf*, as with other Islamic Social Finance, we needed to select consumers who were trustworthy regarding the concept of Islam as their way of life, and as they were loyal customers of an Islamic Bank it meant they already understood the concept of Islamic Finance. That is why we asked for the loyal customers of Islamic banking, and we asked the Islamic Banking officers to tell them that they would be potential *Wāqifs* in the future. We asked them how much they would donate to Cash *Waqf* per month. Of more than 400 respondents, 38.7% would pay a Cash *Waqf* donation of from IDR 1 million to 2 million. 7.4% would pay from IDR 2 million to 4 million. Only 3.4% would pay from IDR 4 million to 6 million. 0.2% would pay from IDR 6 to 8 million. As a result, 5.3% *Wāqifs* or potential *Wāqifs* would donate around IDR 8 million for Cash *Waqf*.

We also asked them about the frequency of donations to Cash *Waqf*. Some said once a year, some once per semester, some of them mentioned they will donate Cash *Waqf* every month. There are 22,120,609 customers of Islamic banking in Indonesia. So, we multiplied by the percentage and found the potential of Cash *Waqf* from the samples to be around 11.675 trillion per year.

In our research, we aimed to measure the potential of Cash *Waqf*. Our estimate of around eleven trillion per year is in line with the estimates of Nasution and other researchers. However, it is significantly lower than the Indonesian Waqf Board's claim of a total of 180 trillion per year. The reason for measuring the potential was to gain an accurate understanding of the marketing potential of Cash *Waqf* in the future. Without a precise estimate of the potential, it is difficult to address marketing challenges effectively. Therefore, our findings can help in developing an effective marketing strategy for Cash *Waqf*.

2. Conclusion and Recommendations

As a result of the findings of this research, we know the regulation and governance standards are not adequate to support the collection, management, and development of Cash *Waqf*.

Current laws and regulations are not rigorous enough and thus do not provide sufficient motivation for the relevant authorities and institutions in the supervisory process to develop the transparent implementation of Cash *Waqf*.

The guidance from *Waqf* Core Principles cannot be fully implemented to guarantee Cash *Waqf* governance in Indonesia, mainly because the present Cash *Waqf* regulations lack justification in certain aspects, namely Cash *Waqf* supervision and governance.

It is necessary to improve the Cash *Waqf* regulations including the Indonesian Waqf Board's authority to evaluate *Nāzīr* certification, the guidelines and standards for Cash *Waqf* reporting, the submission of a detailed database of *Mawqūf 'alaih* from *Nāzīrs* to the BWI, the detailed requirements for staff of the *Nāzīr* offices in terms of risk management and reporting skills, as well as the requirement for Islamic Banks to receive Cash *Waqf* and *Nāzīr* offices to submit an audited financial report and publish their accounts.

Moreover, the Ministry of Religious Affairs and the Indonesian Waqf Board, as the *Waqf* supervisors, should coordinate with the Indonesian Financial Services Authority (OJK) and other relevant authorities in implementing Cash *Waqf* regulation as well as monitoring and enforcing the regulations.

Lack of transparency and lack of good governance practices in managing Cash *Waqf* reduces the trust of *Wāqīfs* to donate their money for developing *Waqf* in Indonesia.

This situation can cause inefficient and ineffective Cash *Waqf*

management in which the absence of transparency will cause the public to make direct donations rather than giving them to *Waqf* institutions. Being in line with the principle of trust will also lead to producing a good reputation and this will be achieved by consistent behavior, which requires the elimination of any inconsistent behavior from the *Waqf* institutions. It should also be recognized that insufficient supervision can pose a risk of long-term losses for an institution.

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