



## Proper *waqf* management and *waqf* accounting report: A mean to solve economic problems in Indonesia

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### Abstract

This study aims to propose that a proper *waqf* management and *waqf* accounting practices in Indonesian *waqf* institutions will be one of the solutions for the economic problems. Data were collected through secondary data such as books, journals, and articles related to the *waqf* accounting or management. A proper *waqf* management and *waqf* accounting report is a crucial tool for achieving socioeconomic development and, if properly applied, may significantly contribute to the reduction of unemployment and the eradication of poverty, ultimately aiding in the socioeconomic advancement of Muslim communities. This study only focuses on *waqf* in Indonesia. Thus, the results of *waqf* may not be generalizable to other *waqf* in other countries or to privately managed *waqf* institutions. This study is expected to contribute to the improvement of *waqf* administration. The paper suggests a proper *waqf* management and *waqf* accounting report as a solution to the economic problems such as poverty, hunger and unemployment.

### Keywords:

Economic problems  
Transparency  
Waqf accounting report  
Waqf management.

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## 1. Introduction

*Waqf* is a charity formed by the declaration of a person who gives his own property for charity service for good (Orbayy, 2013). *Waqf* is the powerful instrument, believed to be the most potential instrument in enhancing the socio-economic (economy of the *ummah*/nation). It also can harness the potential of selfless charity giving in an effective way for better economic impact on the target social segment of society (Shaikh, Ismail, & Mohd Shafiai, 2017).

In historical terms, *waqf* has a socio-economic ability to build an enviable framework for modern social enterprises (Abdullah, 2019; Çizakça, 2011; Kahf, 2003), providing a comprehensive framework for eradicating poverty from society (Ihsan & Ayedh, 2015; Sadeq, 2002), and improving or advancing the social welfare of economic community (Ihsan & Mohamed Ibrahim, 2011; Nasution & Medias, 2020; Tutuko, Hudaifah, & Zulfikar, 2017).

*Waqf*, however, is a crucial tool for boosting the country's economy. Giving *waqf* by Muslims is a proven economic practice that has the potential to have a significant impact on all spheres of society.

## 2. Literature Review

Indonesia as one of the largest Muslim countries, could play a vital role in *waqf* management. Nevertheless, the usefulness of the *waqf* assets in various places in Indonesia is yet to be reached for all its community. The Ministry of Finance stated that Indonesia has the potential for *waqf* funds of 217 trillion in Rupiah (equal to 15.4 billion in USD). Indonesia has 134,237 donated land parcels that have been certified by the National Land Agency (NLA) and 111,481,173 m<sup>2</sup> area of *waqf* land which already has a *waqf* land certificate from NLA. The country has a great potential that could be offered by the *waqf* instrument, as well as the fact that Indonesia has a very large number of donors (*wakif*).

However, these assets were not monitored efficiently. Most of the *waqf* asset were managed by the individual/community. For this reason, *waqf* management must not only be carried out professionally but also must be transparent and accountable (Rozalinda, 2012). The tool that can monitor or evaluate the *waqf* management is financial reporting (Abu Talib, Abdul Latiff, & Aman, 2020). Accordingly, fraud and improper management of *waqf* properties will be possible if appropriate accounting records are not kept. The most significant factor is that *waqf* reporting and disclosures are essential to improving donor accountability and better openness of *waqf* organizations. This kind of transparency in *waqf* reporting is in line with Islamic teachings because *waqf* is based on religious motivation and concern for the public interest, then it should be the first priority to be fulfilled by *waqf* institutions or organizations which handling the *waqf* fund.

Additionally, Daud (2019) discussed the function of Islamic governance to guarantee that the enforcement of financial reporting for *waqf* practises may be carried out appropriately. Depending on the nation in which the *waqf* organisation conducts business, reporting *waqf* is an obligation. Financial accounting and reporting have emerged as one of the tools utilised by *waqf* management organisations to enforce their responsibilities to funders or stakeholders in highly regulated nations like those in Southeast Asia.

Previous research from Banda Aceh, Indonesia have uncovered, weak accountability for the accounting and reporting of *waqf* properties (Ali, Fahlevi, & Saputra, 2019). The recording of *waqf* assets lacked sufficient documentation and normal operating processes. The *waqf* manager acquired information about *waqf* assets (land) using straightforward forms and used the data to create a report for the Ministry of Religion. The most recent report came out in 2015.

Thus, this study aims to propose that a proper *waqf* management and accounting practices in Indonesian *waqf* institutions as one of the solutions for the economic problems. In general, the study of *waqf* in Indonesia has previously been examining either standard or management aspects (Ayedh, Echchabi, & Ihsan, 2018; Gustina & Ihsan, 2020; Ihsan, Eliyanora, & Septriani, 2016; Ihsan & Mohamed Ibrahim, 2011; Masyita, Tasrif, & Telaga, 2005) and only a few previous research (Abu Talib et al., 2020; Hamdan, Mohd Ramli, Jalil, & Haris, 2013) have focused on other aspects such as transparency of *waqf* accounting and socialization of reporting to users or *wakif*. However, both research streams have offered a wide body of knowledge that keeps growing. The first step for further research is to comprehend in depth the existing research findings and fully examine the research opportunities of the field.

On the other hand, *mutawalis* (person who supervises or take over the management of a *waqf*) must show its accountability to the public through accounting reports that will inform how they use and manage the *waqf* assets. Therefore, seeing these facts, it is necessary to conduct an initial study of *waqf* accounting and furthermore to locate adequate research in specific aspects of the subject and propose new guidelines for further research, especially in Indonesia.

## 3. Research Methodology

This type of research is library research. This research will explore data and information from the *waqf* organizations platform, as well as other data related to the *waqf* accounting or management. The approach used is qualitative with data sources, namely data obtained directly from the *waqf* organizations website.

Secondary data comes from books, literature, legal materials, statute journals and other legal materials related to *waqf* development and accounting. This research tries to look at current issues in *waqf* institutions, especially those related to funding and accounting. The awareness of *waqf* in Indonesia is still low even though the socio-economic value it offered has a big impact. Furthermore, *waqf* has crucial impact that cannot be denied from the economic point of view. This research will also propose some improvement of *waqf* for the future.

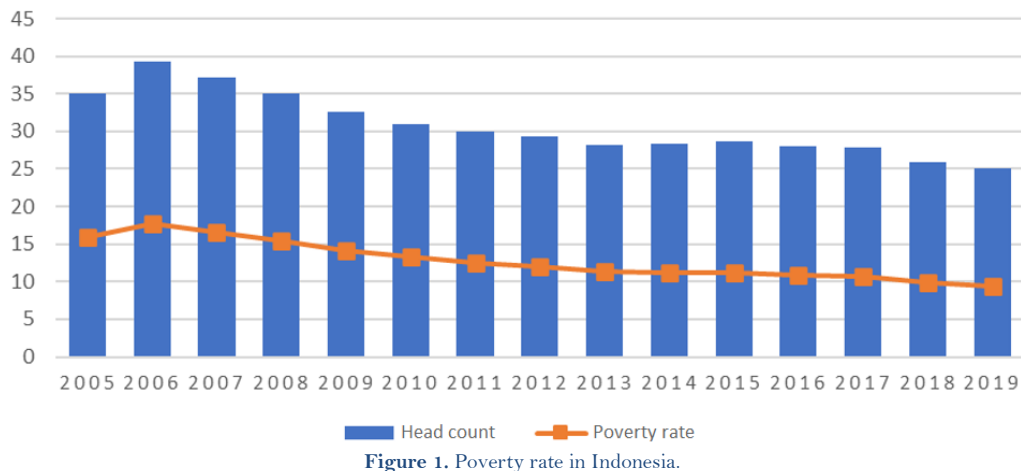
This study focuses only on Indonesia. Thus, the results of *waqf* may not be generalizable to other *waqf* in other countries or to privately managed *waqf* institutions.

## 4. Results and Discussion

Data collection of *waqf* in Indonesia is currently centered at the Indonesian *Waqf* Board (IWB) and the Ministry of Religion. This has an impact on the success of developing *waqf*. Both have different *waqf* data, which are not updated regularly, and are difficult for the public to access. The data should be computerized and centralized, in order for the data gap can be closed.

Actually, Indonesia has more than 20 organizations that concern in managing *waqf*, either public or private. The total *mutawallis* (*Waqf* institutions) in Indonesia has reached around 200 units, mostly *Baitul Mal wa Tamkin* (BMT) and Sharia cooperatives. The potential for *waqf* is extensive in Indonesia, and the funds can be used for productive economic activities in addition to other social activities (Rozalinda, 2012). *Waqf* management must have a considerable influence on society. In addition, it is also to educate people to have an entrepreneurial spirit (Thaker, Mohammed, Duasa, & Abdullah, 2016), that creates jobs which in turn can reduce unemployment and poverty. Thus, the influence of *waqf* management in overcoming economic problems is quite high, especially poverty problem.

Moreover, *waqf* is developed within the framework of voluntary Islamic zakat and continues to carry the soul and identity of Islam throughout its history (Abdullah, 2019). Shaikh et al. (2017) in their paper tries to describe the economic problem such as poverty, hunger and unemployment rate in Indonesia. It should be the realization of what the *waqf* distribution has done so far, and how effective it is.



Source: Sunarta (2020).

As can be seen from Figure 1, the head count ratio (HCR) is the proportion of the population that live below the poverty threshold. One undesirable feature of the head count ratio is that it ignores the depth of poverty; if the poor become poorer, the head count index does not change. Moreover, the poverty rate is the definition used to determine the level of poverty. In Indonesia, poverty estimates vary widely from the 2005s to the 2019s. In 2019, the Indonesian government stated 9.4% of the population was below the poverty line.

In 2015, with the population below the poverty threshold is 28.59 (in million), the poverty rate is 11.22%. Then in 2019, the poverty rate decreases to 9.4% with the amount of population 25.14 (in million) based on household income. The poverty rate began to decline from year to year, start from 2006 until 2019.

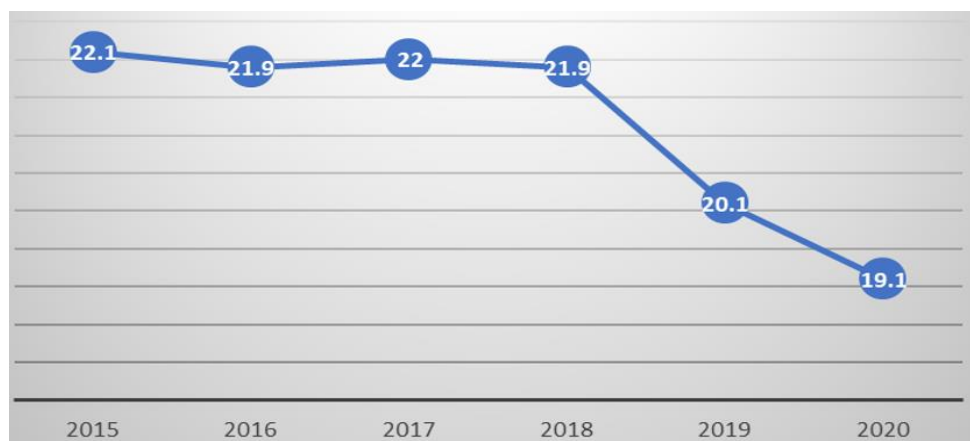


Figure 2. Hunger statistic in Indonesia.

Source: Global Hunger Index (2020).

As can be seen in Figure 2, from 2015 to 2019 Indonesia stand in serious range of hunger, however there is a sharp drop from 2018 to 2019 around 1.8 significantly, which show a good improvement. Then in 2020, the hunger score is 19.1 which is decrease from previous years and its position is raised to moderate. This hunger problem is also related to health (malnutrition) and sustainable food system. Usually this happens in the suburb's places in Indonesia.

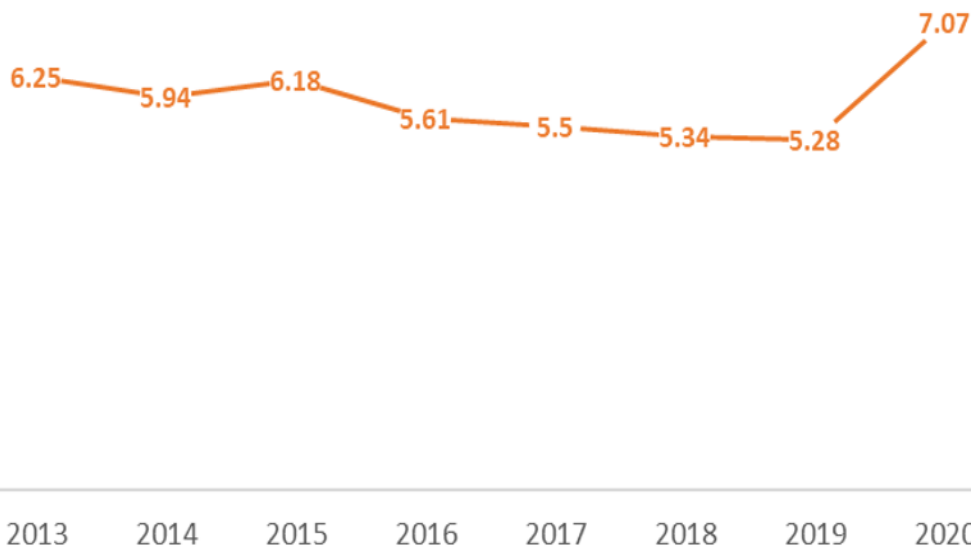


Figure 3. Indonesia unemployment rate.

Source: Central Bureau of Statistics (2020).

As can be seen in Figure 3, there is a decrease level from 2015 to 2019 around 0.90 and there was a sharp increase in 2020 from 5.28 to 7.07 which touched its highest point for the past 5 years. Amid the unemployment problems, the existence of *waqf* can overcome this issue. This problem includes people who feel they lack the necessary qualifications or education, and in 2020 there is a pandemic which hit the whole business aspects.

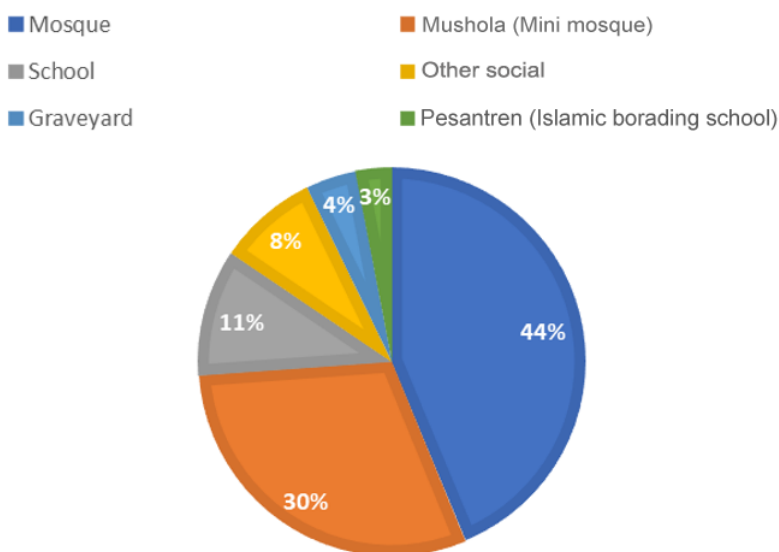


Figure 4. Distribution of *Waqf* land use.

Source: Zakat and *Wakaf* Empowerment Directorate (2020).

#### 4.1. Distribution of *Waqf* Land Use

As can be seen in Figure 4, the distribution of *waqf* dominated in non-productive *waqf* such as Mosque (44%), and Mushola (30%). However, for school it is only 11% which is less than quarter. This is the traditional way for distributing *waqf* in 3M (Mesjid, Makam and Madrasah/Mosque, Graveyard and Islamic School). This is due to the lack of awareness on *waqf* for education which reduces the potential for *waqf*, even though the potential for *waqf* in Indonesia is very huge and can be a means of economic equality.

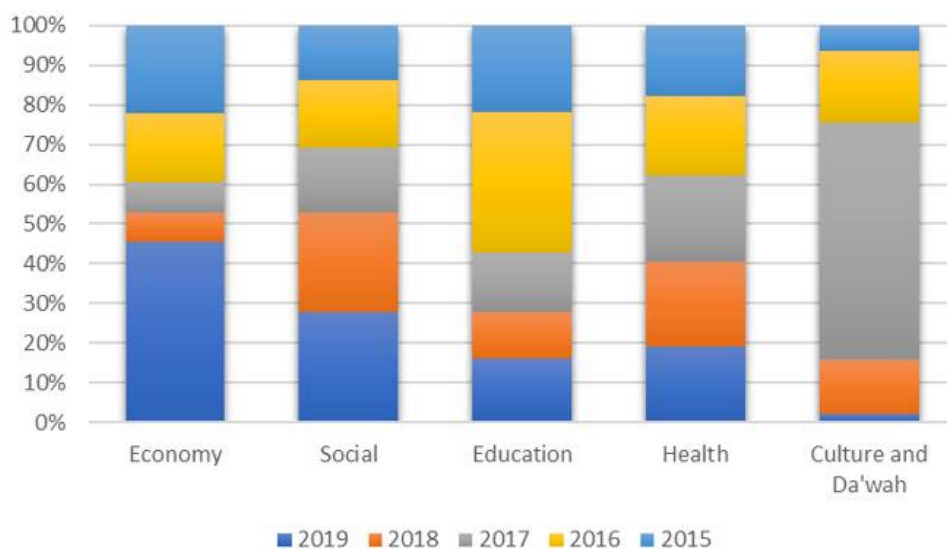


Figure 5. Data collection of *Dompot Dhuafa* beneficiaries.

As can be seen from Figure 5, the data collection of *Dompot Dhuafa* (one of the *waqf* institution in Indonesia), most distributed *waqf* in 2015 is economy and education, *waqf* can be used to provide facilities such as education and health services (Gustina & Ihsan, 2020). However, economy still be a favorite place for distributing *waqf*, than social, where it is the second place in 2019. Regarding unemployment, hunger and poverty rate; 2019 has decrease of economic problem. The spirit of empowering the potential of *waqf* is for the benefit of humans in the economic, education, health and other socio-religious fields.

The distribution gap of *waqf* institution leads to ineffectiveness and they do not have a centralized data. The socio-economy improvement needs to be achieved collectively without any gap. There was a different between data distribution in Indonesian Waqf Board and *Dompot Dhuafa*. Regarding transparency, most *waqf* accounting report are difficult to access, some organizations tried to keep their annual report from public, and they must ask permission first. Different with bank, which provide their annual report publicly in order to fulfill their shareholders or public user's requirement.

Due to lack of data of *waqf* assets, the society do not know what is the public facilities that can they use for free, in terms of *waqf* productive. *Waqf* assets have the potential to satisfy and enhance their region from economy aspect. Regarding *waqf* assets, it is difficult to trace which *waqf* assets that can be used by public, hence the *waqf* assets is yet to be utilize by all levels. The listed data of *waqf* asset should be spread and maintain well, the more transparent, the more people feel the benefits and achieve economic independence.

For poverty rate since 2006 to 2019, there is a decline line that has occurred so far; for hunger range from 2015 to 2019, the trends are tend to be fickle, however there has been a drastic decline in the last 3 years, these are good improvement. But for unemployment, there was a decline from 2015 to 2019, but jumps dramatically in 2020 (most likely because of pandemic COVID -19). Based on the three economic problems which are poverty, hunger and unemployment in Indonesia, *waqf* can play a big role to improve the economic conditions. Most of these issues can be overcome with a proper *waqf* management. A proper *waqf* management and *waqf* accounting report is a crucial tool for achieving socioeconomic development and, if properly applied, may significantly contribute to the reduction of unemployment and the eradication of poverty, ultimately aiding in the socioeconomic advancement of Muslim communities.

In a proper *waqf* management, not only it is essential for *waqf* institutions to be honest in their dealings as an act of *ibadah* to God but also to be accountable to the ummah given the growing amount of *waqf* that they are collecting. For *waqf* organizations or *waqf* management to be more transparent and accountable to donors, *waqf* accounting and reporting are crucial. This strategy will make sure the objectives are met and prevent improper administration of *waqf* properties.

On the other hand, *waqf* institutions have a duty to prove their accountability by keeping correct accounting records for *waqf* properties in order to foster more donations for *waqf* and win over the public's trust. The Ministry of Religion of Indonesia as well as the accounting standard setter should be in charge of developing specific suggestions for *waqf* institutions regarding how to keep track of and report on *waqf* properties. This will guarantee that *waqf* accounting and reporting procedures are open, defensible, and consistent for the good of the entire ummah.

## 5. Conclusions

It can be concluded that *waqf* has enormous potential for Muslim community in Indonesia. *Waqf* management actually has a positive contribution in order to improve the welfare of the ummah. Therefore, *waqf* can be mobilized as a crucial tool for achieving socioeconomic development. It can then play a significant

role in eradicating poverty and lowering unemployment, thereby aiding Muslim communities' socioeconomic development. *Waqf* institutions can effectively make use of these *waqf* assets and collections to support the socioeconomic development of Muslim communities.

On the basis of the findings of this study, we would like to emphasize that transparency of *waqf* assets is very important because the *waqf* giver or the community need to know the purpose for which the funds are used and whether the funds have been distributed to the entitled recipients.

The transparency of *waqf* accounting report is very crucial not only in terms of the number of *waqf* collected, but also contribution made to the development of the Muslim community in Indonesia. Therefore, the spirit of *waqf* needs to be maintained in order to reposition *waqf* properly. Moreover, a proper recording system is also important to safeguard and monitor *waqf* assets, also society can easily evaluate the achievement of *waqf* institution.

Nowadays, not only accountants conduct and reporting of *waqf* accounting, but also a lot of other party such as *mutawallis*. However, it is not certain that they have the appropriate know-how on management accounting techniques. Thus, further research is required on the skills that non-accountants need to acquire and the way of *waqf* accounting techniques are influenced when non-accountants perform them. In addition, since *waqf* accounting is not accountants' domain anymore, some research questions must be answered: How will this change affect the way we perceive *waqf* accounting? For further research, it is suggested to conduct research on *waqf* organizations or *mutawallis*, in order to plan the concrete steps for *waqf* accounting and make *waqf* as truly potential instrument for the economic growth of the society.

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