

Why Cash Waqf Fails to Meet the Expectation: Evidence from Indonesia

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The objective of this study is to assess some evidence to explain why the actual cash waqf collection is far below its potential value by assessing cash waqf governance in two institutions: Islamic banks and nazir of waqf institutions, and to compare with the standards and provisions of cash waqf governance in Indonesia. Primary data were collected from 17 Islamic banks and 11 nazirs licensed to receive cash waqf from waqif. The data were analyzed using partial least squares structural equation modelling (PLS-SEM) in SmartPLS 3.0 software. The result shows that cash waqf regulation discourages Islamic banks-nazir report and coordination behavior. Meanwhile, Islamic banks-nazir relationship and government support have positive effects on Islamic banks-nazir report-coordination behavior. To improve cash waqf collection, Islamic banks need to give proper attention to support cash waqf by establishing a cash waqf department and allocating more budget for cash waqf promotion, and nazir needs to practice cash waqf transparency by providing regular report. Furthermore, cash waqf regulation in Indonesia provides a lack of justifications in terms of cash waqf supervisory and governance. Those pieces of evidence enhance the facts that cash waqf fails to meet the stakeholders' expectation

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As an emerging lower middle-income country, Indonesia is still faced with problems of poverty. Statistics Indonesia reported that in September 2019, the number of poor people in Indonesia was 24.79 million (9.2%). The number was decreased by 0.36 million people (0.19%) compared to that of March 2019 and decreased by 0.88 million people (0.44%) compared to that of September 2018. The problem of poverty is closely related to income inequality. The reduction in the level of inequality follows the goal of economic growth and it shows 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. This figure was decreased by 0.002 points compared to that of September 2018, which was 0.384, and was decreased by 0.007 points compared to that of March 2018, which was 0.389.

Waqf activities can ideally be used as a tool to achieve economic sustainability by reducing poverty and income inequality (Masyita, 2007; Nabi *et al.*, 2019; Yakubu and Aziz, 2019). Cash waqf can be used as a financial instrument to increase the source of investment legally and then the profits are channeled into poverty reduction programs (Hosseini *et al.*, 2014). Compared to zakat, waqf is considered more effective and flexible in assisting waqf beneficiaries or *mauquf'alaih* (Sadeq, 2002; Shaikh *et al.*, 2017). This is due to the nature of waqf which is not bound by time (except for temporary waqf), where the benefits of zakat can be felt by 8 ashnaf which have a certain designation within a certain period, while the benefits of waqf can be more flexible to use in increasing individual productivity, thereby increasing the feasibility of waqf beneficiaries life.

Griffiths and Tan (2007) added that social assistance in the form of direct assistance has failed in reducing poverty and suggested waqf as an instrument of social assistance that is sustainable. In addition to the direct benefits of waqf assets being felt by *mauquf'alaih*, waqf funds also have indirect benefits, especially through the development of education and health facilities (Khan, 2010). This encourages an increase in human resources who are more productive, innovative, ready to work, and highly motivated. In this way, waqf is believed to reduce poverty in long term.

One potential source of waqf is cash waqf which has the advantage of being more flexible in management because it can be invested in various sectors, both real and financial sectors (Çizakça, 2011; Masyita *et al.*, 2005; Nizar, 2014). The cash waqf model allows the participation of Muslims to have greater waqf fund, considering that the nominal cash waqf can be broken down into small amounts that can be reached by all groups. With the existence of waqf, it allows all people to give charity (Hilmi, 2012).

Cash waqf is expected to be one of the instruments in poverty alleviation in Indonesia (Masyita *et al.*, 2005). The current poverty program requires a very large amount of funds and cannot be fully provided by the government. Therefore, new sources of funds are needed to boost poverty alleviation. Cash waqf in the concept of Islamic economics plays a vital source of social funds that can be used further as a new source of funds, that it should be independent from economic and

political interests. All profits from cash waqf should be channeled back to poverty alleviation programs, such as improvements in the lives of the poor, scholarships, health services, and other necessities (Masyita and Febrian, 2004). A nazir can distribute the benefit of cash waqf to the real sector (MSMEs) to support the program of economic empowerment.

The public hopes that Islamic banking plays an important role, especially because it prioritizes moral values rather than capitalism, can bring community banking values by providing services to the community, not just making the community a target market, has responsible finance by providing financial services which do not make people trapped in excessive debt, encourages ethical investment and corporate social responsibility initiatives, as well as creates stability by linking financial services to the real economy sector (Asutay, 2008).

The existence of Islamic social financial instruments (*zakah, infaq, sadaqah*) managed by Islamic banking increases public confidence that Islamic banking has more concern for the welfare of the community compared to conventional banking with profit-oriented motives. Besides, social financial instruments will increase public trust, in which people will be more secure with the professionalism of waqf management using standardized governance. The combination of social care with effective and efficient business professionalism will differentiate Islamic banking in the future, so that it can ward off the perception in the public that Islamic banking is substantially not different from conventional banking and it will further improve the good image of Islamic banking.

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 the *maqasid of sharia*. Article 4 states that an Islamic bank can carry out social functions in the form of a *baitul mal* institution by receiving funds originating from *zakat, infaq*, alms, grants, or other social funds and collecting social funds from waqf. Furthermore, Islamic banks can channel these funds to zakat organizations and nazir as waqf managers.

To ensure the sustainability of the social fund, the efficiency of the governance of the funds must be supported by trust and supervisory functions (Das and Teng, 2000; Dyer and Chu, 2003). 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 (Carson *et al.*, 2003). Trust is often used to measure the strength of governance within an institution by creating economic value which in turn reduces transaction costs between various parties in business activity (Dyer and Chu, 2003) and encourages greater collaboration (Gulati and Nickerson, 2008). Ultimately, governance will create orderly conditions to ensure a common goal in which regulators become part of the system which must also be regulated (Stoker, 2018).

Trust is also one of the main manifestations of Islamic teachings that must be placed as social capital and guaranteed its sustainability as a mechanism that can keep waqf operating efficiently

(Masyita and Asutay, 2016). Management of waqf that is not professional will be followed by a decrease in trust in the waqf institution by the community, which can cause waqf to be inefficient and ineffective. Trust in waqf institutions must be supported by a good governance system to maintain the trust of the waqf stakeholders, which must also be supported not only by an understanding of fiqh, but also normal and Islamic ethics.

Trust will also produce a good reputation and will be achieved with consistent behavior (Stiglitz, 2000). One of the basic requirements of trust in a waqf institution is to maintain transparency and accountability. The absence of a transparent process will cause the public to make direct donations rather than leaving them to waqf institutions. Because building trust is something that cannot be done in a short period, this process can be disrupted by inconsistent actions from the waqf institution, such as opportunistic behavior or fraud in trusted relationships (Nooteboom, 1996) and insufficient supervision, so that it can pose a risk of long-term loss for an institution (Langfred, 2004).

According to Mas'udi *et al.*, (2016), a bigger role is needed from the Islamic banks, so that the synergy with nazir can be maximized. Financial Services Authority in 2016 reported that Islamic banks had tremendous potential to participate in maximizing the collection and management of cash waqf based on Law No. 41 of 2004 on Waqf. This is mainly driven by the fact that Islamic banks have good credibility in terms of access to waqif, investment, and administrative capabilities as well as the ability to distribute investment returns. In addition, Islamic banking is the most equipped institution to follow waqf core principles because it is better trained in implementing Basel-style risk management, in which waqf core principles have principles based on prudential principles in financial institutions on both national and international scales. Waqf core principles have the ability to increase the level of waqf fund management in financial institutions on par with other financial instruments in the world in terms of good governance. Whereas Basel Core Principles become an instrument for banking supervision, waqf core principles become a waqf supervision instrument. This precautionary principle will create a trust for the community in the waqf management.

The practice of cash waqf that involves Islamic banks is a form of contemporary waqf financing and is commonly called the Deposit Product Model Cash Waqf. This model begins when waqif deposits money into a cash waqf-based account at Islamic Bank. Waqif can also specify nazir as manager of a cash waqf and then the benefits of investment to be channeled to certain mau'quf'alaih. Islamic banks, therefore, act to receive cash waqf and invest the cash waqf fund using *mudarabah* contracts. The profit or value of the benefits from the cash waqf management activities is then distributed to the agreed-upon programs for mau'quf'alaih coordinated by nazir.

Cash waqf has been a product of the banking sector in recent times. This provides new opportunities to invest in a variety of religious, educational, and social services programs. The benefit generated from the cash waqf can be mobilized for benevolent purposes. This mechanism can popularize the role of waqf in the country, including cash waqf which can play a role in

transferring the savings of the rich to the public in financing various religious, educational, and social services.

The Indonesian Waqf Board believes that potential cash waqf in Indonesia reaches Rp. 180 trillion. However, previous researches provide lower estimations on the value of cash waqf potential. Noor (2015) confirmed the amount of cash waqf potential was Rp. 120 trillion per year. Meanwhile, Nizar (2017) concluded that the estimated of cash waqf potential reached Rp. 985 billion per month or Rp. 11,82 trillion per year. Furthermore, using the assumption on potential wakif, the estimation of cash waqf by Nasution and Hasanah (2006) was Rp. 3 trillion per year.

Based on the above background, the collection and distribution of cash waqf in Indonesia have not been effective and efficient yet. This paper aims to assess cash waqf governance in Islamic banks and nazir and its comparison with the standards and provisions of cash waqf governance to support the cash waqf collection in Indonesia.

1. Literature Review and Hypotheses

1.1 The Development of Cash Waqf in Indonesia

The beginning of the development of cash waqf in Indonesia began when Islamic economists assessed that many waqf assets were no longer used productively and as many as 73.88% of the assets represented were in the form of places of worship for mosques and prayer rooms (Ministry of Religious Affairs, 2016). On May 11, 2002, the Indonesian Ulema Council (*Majelis Ulama Indonesia*) issued a fatwa that allowed cash waqf as a solution to increase the productivity of national waqf assets. This fatwa was later strengthened by the issuance of Law No. 41/2004 concerning Waqf and Government Regulation No. 42/2006 as a guideline for implementing the law on waqf, in which it further explains that money is part of the movable object that can be donated. Furthermore, cash waqf is an asset in the form of money that is used productively in the halal sector for the benefit of Muslims, especially *mauquf'alaih*. The corpus of the cash waqf must not decrease or be lost.

Then through Presidential Decree No. 75/M/2007, the government established the Indonesian Waqf Board as an independent institution in charge of managing waqf to make it more structured and overseeing the national waqf nazir. Candidates for nazir of cash waqf are required to register at Indonesian Waqf Board and meet the requirements according to Law No. 41/2004 on waqf and Government Regulation No. 42/2006 on the Implementation of Law no. 41/2004 regarding waqf. The registration of nazir is regulated in Regulation on Indonesian Waqf Board No. 2/2010. By October 2019, there are 224 cash waqf institutions registered at Indonesian Waqf Board.

In its implementation, cash waqf is carried out within several stages. The first stage of fundraising involves waqif participation to give in their waqf fund; the second stage, the management of cash waqf in Islamic banks that are suitable with the banks' investment decision; and the final one, the distribution of the benefits of cash waqf fund to *mauquf'alaih* through collaboration with nazir. In Indonesia, the Ministry of Religious Affairs has the authority to grant the cash waqf license for

Islamic banks to receive and manage cash waqf. The cash waqf fund cannot be managed directly by nazir. Instead, it goes to the Islamic bank's waqf deposit fund using a *wadi'ah* contract in the nazir account designated by the waqif. Therefore, Islamic banks are significantly involved in the first and second stages of the cash waqf management. Until the end of 2019, even though 21 Islamic banks had been licensed with cash waqf management, only 17 of them were actively involved in collecting and managing cash waqf.

As mandated in Government Regulation No. 42/2006 Article 25, the main tasks of Islamic banks in cash waqf management are to announce their role to the public, to provide cash waqf certificate, to receive cash waqf from waqif on behalf of nazir, to put cash waqf into a *wadi'ah* deposit account in the name of nazir appointed by waqif, to receive a statement of the will of the waqif as outlined in waqif's will statement form, to issue cash waqf certificate, to submit the certificate to waqif as well as to nazir appointed by waqif, and to register the cash waqf to the Minister of Religious Affairs on behalf of nazir.

There are some obstacles to the practice of cash waqf. According to Furqon (2011), the distribution of cash waqf information is relatively limited compared to the median wealth and experience that banks have. Apart from that, cash waqf regulation is not very supportive of the realization of cash waqf as a mean of economic equality and empowerment in society (Hilmi, 2012). The lack of transparency and reporting is another challenge that poses obstacles to potential waqf contributing to waqf institutions (Nasir and Ihsan, 2017; Indonesian Waqf Board, 2009-2012). The waqf management institution must be regulated and comply with good governance. This will encourage the creation of a special entity within the waqf management institution that handles specific aspects related to waqf, such as the formation of a Sharia board to fulfill matters related to Islamic law, a risk management board that handles matters related to financial and investment risks, and courts to handle disputes and violations related to waqf assets (Rashid, 2011).

1.2 Conceptual Framework and Hypothesis Development

There have been many studies analyzing cash waqf, mainly from the topic of waqif awareness, intention, willingness, and the actual contribution of cash waqf (Hudzaifah, 2019; Iqbal *et al.*, 2019; Johari *et al.*, 2015; Osman *et al.*, 2014; Osman and Muhammed, 2017; Pitchay *et al.*, 2015; Razak *et al.*, 2019; Al- Harethi, 2019; Shukor *et al.*, 2016). The method of cash waqf collection and its online facility were also conducted by Isa *et al.* (2019) and Hafiz *et al.* (2019), as well as the strategy to increase the collection of cash waqf (Khairunisa *et al.*, 2017). However, researches related to the governance of cash waqf are still very limited and only cover the efficiency of cash waqf management (Masyita and Asutay, 2016; Nil Firdaus *et al.*, 2019; Siswantoro *et al.*, 2018; Khamis and Che, 2018). Meanwhile, this research focuses on the governance of cash waqf which is proxied by reporting and coordination behavior from Islamic banks and nazir licensed to receive cash waqf. This topic is essential because reporting and coordination behavior from cash waqf institutions encourage the increase of trust from the public that will further encourage their participation in the development of cash waqf.

There are several obstacles to the development of cash waqf from the cash waqf institution's point of view, mainly from the aspects of human resources, trust, and supervisory system (Rusydiana *et al.*, 2017). Previous studies proposed that while the main factors that most likely encouraged the collection of cash waqf were promotion, human resources, documentation, and reporting strategy, these factors had not supported the development of cash waqf (Kamarudin *et al.*, 2016; Khamis *et al.*, 2018). In addition, most cash waqf institutions still had a low accountability index, so that cash waqf institutions must prepare an adequate information system (Siswanto *et al.*, 2018). Experts and practitioners agreed on the importance of strong legal support to increase the role of Islamic banks in collecting cash waqf (Khairunisa, 2017). The key factor for the success of cash waqf is to resolve the following issues in sequence, namely human resources, regulations, products, and accountability. Furthermore, guidance is needed for nazir and socialization of cash waqf to the public (Firdaus *et al.*, 2019). Cordery and Baskerville (2007) confirmed that non-profits were exposed to 'minimum' regulation and 'underdeveloped' financial reporting requirements. In this case, cash waqf acts as a non-profit sector. Furthermore, Ihsan and Ayedh (2015) showed that waqf governance structure promoted waqf managers accountability when managing waqf. Their conclusion framework of good governance waqf institutions was *amanah* (accountability), *adalah* (fairness), and *syura* (collective or consultative decision making). According to Yasmin and Haniffa (2017), several factors are identified as crucial elements in governance reporting including waqf. This includes board background and composition, systems, procedures, objectives, and goals. Another research from Said *et al.*, (2013) said that a more comprehensive waqf reporting to ensure financial and other information communicated to the waqf stakeholders effectively and transparently was needed. This is due to a positive relationship between fundraising activities with performance and impact including waqf. Thus, the research hypotheses are as follows:

- H1. The relationship between Islamic Bank and Nazir has a positive effect on reporting behavior and coordination of Islamic Bank-Nazir for cash waqf.
- H2. Government support has a positive effect on the reporting behavior and coordination of Islamic Bank-Nazir of cash waqf.
- H3. Cash waqf regulation has a positive effect on the reporting behavior and coordination of Islamic Bank-Nazir of cash waqf.

Summarizes the structural model in analyzing the reporting behavior and coordination of cash waqf by Islamic Bank and Nazir. Government support and regulation each use 5 indicators, while relations and reporting-communication have 3 indicators. These indicators are modifications from previous research of Hasim *et al.* (2016), Khairunisa *et al.* (2017), Siswanto *et al.* (2018).

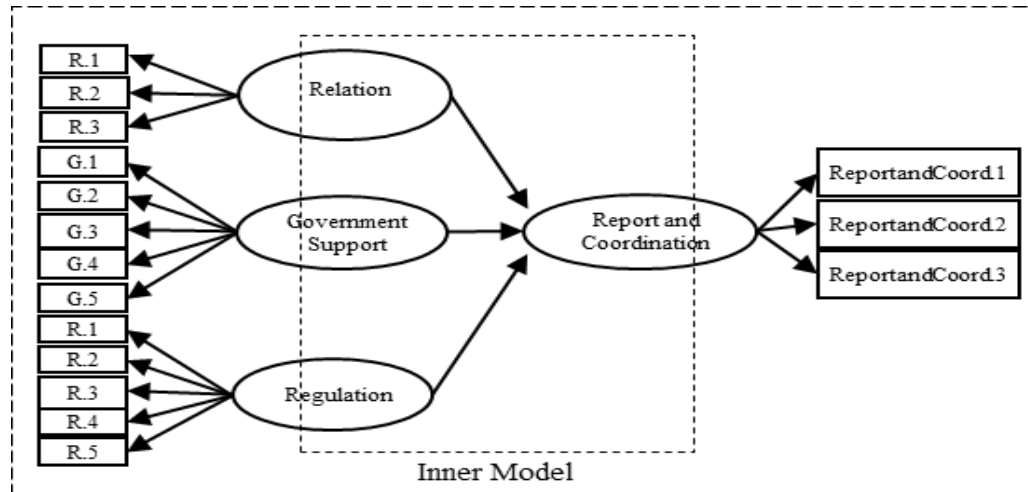


Figure 1. The Conceptual Framework of the Study

2. Methodology

This study used an online survey to investigate the determinants factors of reporting and coordination behavior of Islamic banks and nazir in Indonesia. The questionnaire was in Indonesian and the items were measured by a five-point Likert scale from strongly disagree to strongly agree. The questions in the survey were developed according to the operationalization of the research variables. The questionnaire was divided into the following two components: general statements related to respondents' institutional information and the second part containing 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.

The questionnaire was pre-tested for its reliability and validity before being used to the sample population. To assess the cash waqf governance, the respondents of this study are Islamic banks and nazir. In the primary data collection design, this study uses two approaches, namely the quantitative approach, which is used to test the hypothesis by conducting a survey using a questionnaire with respondents representing Islamic banks and nazir. A second approach is a qualitative approach to validate the model by conducting Focus Group Discussions with related stakeholders. By using these two approaches, it is hoped that the evaluation results will be more comprehensive and valid.

Islamic Bank as respondent is limited to Islamic Banks registered at the Ministry of Religious Affairs with cash waqf products. The online survey questionnaire was distributed to 21 Islamic banks and 244 nazirs registered at the Indonesian Waqf Board as of October 2019. However, only 17 questionnaires from Islamic banks were submitted because 4 other Islamic banks did not have cash waqf products. Meanwhile, only 11 nazirs who actively participated fulfilled the

questionnaire. This condition was anticipated because, from focus group discussion with Indonesian Waqf Board, it recommended 14 nazirs as respondents.

Partial least squares (PLS) for structural question modeling is a useful and flexible tool for the construction of statistical models. PLS can be employed to address issues related to statistical power and minimum sample size requirements (Cohen, 1988, 1992; Goodhue *et al.*, 2012; Kock and Hadaya, 2018) and it is also suitable for weak theoretical foundation models and does not require normality of data assumption (Aguirre-Urreta and Rönkkö, 2015). The analytical method used to test the hypotheses was structural equation modeling (SEM). To obtain the results, PLS examines two types of models, the outer and inner models.

Table 1. Respondents from Islamic Banks

No.	Islamic Bank
1	Bank Muamalat Indonesia
2	BNI Syariah
3	Bank Syariah Mandiri
4	Bank Mega Syariah
5	Bank DKI Syariah
6	BTN Syariah
7	Bank Syariah Bukopin
8	BPD Jawa Tengah Syariah
9	BPD Kalimantan Barat Syariah
10	BPD Jawa Timur Syariah
11	BPD Sumatera Utara Syariah
12	Bank CIMB Niaga Syariah
13	Bank Panin Dubai Syariah
14	Bank Sumsel Babel Syariah
15	Bank BRI Syariah
16	BJB Syariah
17	Bank Kaltim Kaltara Unit Usaha

Syariah Source: Ministry of Religious Affairs

3. Results and Discussions

3.1 Respondents' Characteristics

Table 2 summarizes the institutional factors of Islamic banks and nazir that play an important role in encouraging the development of cash waqf. In the case of a special unit for cash waqf, 54.5% of nazirs and 23.5% of Islamic banks form a special unit for cash waqf. In terms of human resources, 45.5% of nazirs separated the HR of the admissions division, the management division, and the distribution division with other divisions and 72.7% of HR 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 with the human resources of other divisions.

Furthermore, from the aspect of financial report, the public accounting firms announced that 82.4% of Islamic banks had an unqualified opinion of their financial report and 11.8% of Islamic banks had a disclaimer of opinion predicate. Meanwhile, 36.4% of nazir's financial reports were not audited by the public accounting firm and 45.5% of nazirs were predicated as unqualified opinion. Meanwhile, the remaining 18.2% of nazir financial statements were predicated as a disclaimer of opinion.

Table 2. Respondents from Islamic Banks

	Not Exi st (%)	Exis t (%)	Merge with Other Divisio ns (%)	Separat ed from Other Division s (%)	%
Institutional Factors					
Islamic Bank Expert Committee on Cash Waqf Management	88.2	11.8			
Islamic Bank Cash Waqf Department	76.5	23.5			
Nazir Cash Waqf Special Task Force	45.5	54.5			
Human Resources of Islamic Bank					
The human resource of Cash Waqf Collection			70.59	29.41	
The human resource of Cash Waqf Management			70.59	29.41	
The human resource of Cash Waqf Distribution			64.71	35.29	
The human resource of Cash Waqf Reporting			76.47	23.53	
Human Resources of Nazir					
The human resource of Cash Waqf Collection			54.5	45.5	

The human resource of Cash Waqf Management	54.5	45.5
The human resource of Cash Waqf Distribution	54.5	45.5
The human resource of Cash Waqf Reporting	27.3	72.7
Islamic Bank Audited Financial Report on Cash Waqf		
Disclaimer of Opinion		11.8
Modified Unqualified Opinion		5.9
Unqualified Opinion		82.4
Nazir Financial Report on Cash Waqf		
Not Audited by Public Accounting Firm		36.4
Audited and Disclaimer of Opinion		18.2
Audited and Unqualified Opinion		45.5

3.2 Measurement Model Evaluation

When PLS estimates both the measurement model and the structural model simultaneously, the PLS involves a two-step process encompassing: First, the examination of the measurement model and second, the assessment of the structural model (Henseler *et al.*, 2009; Mehmetoglu, 2012). Whereas, the measurement model allows us to examine whether the constructs are measured with satisfactory accuracy and the structural model assesses the explanatory power of the model. The measurement model contains Composite Reliability (CR), Average Variance Extracted (AVE), item loading size significance, and discriminant validity (Liang *et al.*, 2007). This research uses the Factor Loading (FL), AVE, CR, and Cronbach's α to assess convergent validity. Ryu (2018) said that FLs and AVE to support convergent validity must be 0.5 or more. On the other hand, CR and Cronbach's α value to support convergent validity are higher than 0.7 (Tenenhaus *et al.*, 2005). Table 4 explains that the FLs (>0.50), CR (>0.70), AVE (>0.50), and Cronbach's α (>0.70) for each latent variable and construct variable.

The discriminant validity test carried out by looking at the cross-loading value shows that the loading value of a latent variable is greater than the loading value of other latent variables. Table 5 shows results that are consistent with the standard discriminant validity testing.

3.3 Structural Model Evaluation

The hypothesized structural relationships are between report-coordination behavior and regulation, government support, and Islamic bank and nazir relationship. Hypotheses H1–H3 were assessed in Figure

2. To assess the statistical significance of the path coefficients, this study uses the path coefficient

of the structural model and then performs bootstrap analysis (Table 3). Based on the results, relation and government support affect report-coordination behavior positively, i.e. relation has a value of $b = 0.572$ ($p < 0.01$) and government support $b = 0.856$ ($p < 0.01$). Meanwhile, regulation affects report-coordination negatively with $b = -0.470$ ($p < 0.05$). Thus, H1 and H2 are supported while H3 is proved to have the opposite effect (Figure 2). Therefore, Islamic banks and nazir relationship has a positive effect on the report- coordination behavior (H1), government support has a positive effect on the report-coordination behavior (H2), and cash waqf regulation harms the report-coordination behavior (H3). The results also show that H2 has the largest t-statistic value (5.032). Therefore, government support is the most important variable affecting Islamic banks and nazir report-coordination behavior.

The influence between variables can be seen from the coefficient value of the connection paths in the model. The relation variable shows a value of 0.572 on report-coordination behavior. This means that the relation variable has an effect of 57.2%. Meanwhile, the government support gives an effect of 0.856 or 85.6% on the model. The regulation variable shows a coefficient value of -0.470, meaning that cash waqf regulation harms Islamic banks and nazir report-coordination behavior.

Table 3. The Direct Relationships of The Structural Model

Hypothesized path	Estimate	t-statistic (sig. >1.96)	P-value	Result
H1. Relation --> Report and Coord	0.572	3.930	0.000	Supported
H2. Govt Support --> Report and Coord	0.856	5.032	0.000	Supported
H3. Regulation --> Report and Coord	-0.470	2.095	0.05	Supported

The R2 value for the report-coordination dependent variable is 0.758. This shows that the Islamic banks and nazir report-coordination behavior can be explained by all independent latent variables by 75.8% while the remaining 24.2% is explained by variables outside the model.

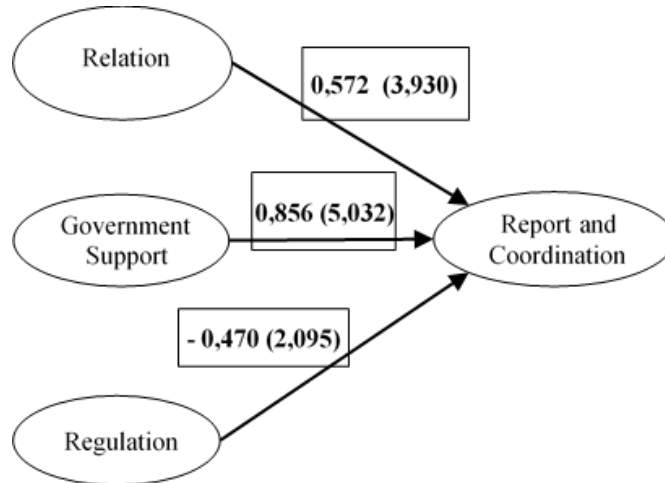


Figure 2. The SEM-PLS inner Model

3.4 Waqf Core Principles and the Implementation of Cash Waqf Regulation in Indonesia

To support the development of waqf in Indonesia, Indonesia Central Bank, Indonesian Waqf Board, and the Islamic Development Bank (IsDB) formulated Waqf Core Principles (WCP) in 2018 mainly to provide guidance and main principles in the process of cash waqf management and its supervisory function. The two main components of the WCP are the supervision of waqf and good governance of waqf. This section explains some details of waqf core principles regarding waqf supervisory and good nazir governance related to the discussion of cash waqf governance in Indonesia.

3.4.1 Cash Waqf Supervisory

The WCP-8 on Technique and Instruments for Waqf Supervisory justifies that waqf supervisory board needs to conduct a monitoring process to verify adjustments made by waqf institution on issues raised by waqf supervisory board.

The Regulation of the Minister of Religious Affairs No. 4/2009 Article 11 regulates how the Minister of Religious Affairs guides Islamic banks during the supervisory process. However, the regulation does not specifically explain how Indonesian Waqf Board has the authority to grant nazir with cash waqf management license and provide guidance to nazir.

Furthermore, WCP-8 also describes that waqf supervisory board can take over and restricts the license of cash waqf institution. However, cash waqf regulation in Indonesia does not specifically define consequences for cash waqf institutions that provide non-compliance reports. Hence, waqf supervisory board cannot implement this guidance in Indonesia.

Moreover, WCP-8 states that waqf supervisory board has to regularly assess waqf institutions covering these aspects: financial reports, waqf collection method, investment and distribution model, and the implementation of good waqf governance. Furthermore, waqf supervisor needs to evaluate the audit results of the waqf institution. In Indonesia, the Regulation of Minister of Religious Affairs No. 4/2009 Article 8 states that Islamic bank is obliged to submit cash waqf financial reports at the end of each financial year to the Minister of Religious Affairs and Indonesian Waqf Board. The report includes the nominal cash waqf and the benefit of cash waqf management. The Regulation of Minister of Religious Affairs No. 4/2009 Article 9 explains: (1) nazir is required to submit a cash waqf report every 6 (six) months to the Indonesian Waqf Board and the Director-General of the Ministry of Religious Affairs; (2) reports include: the implementation of cash waqf management and investment activities, the utilization of cash waqf benefit, and investment activities plans for the following year. The Financial Services Authority Regulation, SEOJK No. 10/ SEOJK.03/2020 dictates that Islamic Banks are required to report their sources of zakah and waqf funds, the distribution, and their financial performance. In reality, the supervisory process to nazir showed unsatisfactory results mainly because from 224 nazirs registered in the Indonesian Waqf Board as of October 2019, only 14 of them regularly provided financial reports to IWB. Meanwhile, the regulation to ensure the cash waqf supervisory process to Islamic banks has only been exercised since July 2020, so that cash waqf report before the period was under the jurisdiction of the Ministry of Religious Affairs.

The WCP-9 on Reporting and Waqf Supervision rationalizes that waqf supervisory board must enquire waqf institutions to submit a report on important information regularly, such as waqf assets and waqf funds financial performance, in the process of waqf supervision enforcement. The Regulation of the Minister of the Religious Affairs No. 4/2009 Article 9 supports the waqf supervisory process by compelling nazir with cash waqf report. However, there are no detailed explanations on how waqf supervisory board enforces cash waqf regulation. Therefore, this aspect of the cash waqf supervisory process cannot be implemented yet in Indonesia.

Furthermore, WCP-9 also guides that waqf supervisory board has to provide waqf reporting guidelines that are compatible with the international accounting system. In Indonesia, the Regulation of Minister of Religious Affairs No. 4/2009 Article 9 (1) only states that a nazir is obliged to submit a cash waqf report every 6 (six) months to the Indonesian Waqf Board and the Ministry of Religious Affairs and it provides no guidelines for nazir to report waqf fund. Meanwhile, the regulation of Financial Services Authority, SEOJK No. 10/SEOJK.03/2020, already makes guidelines and the reporting format for Islamic banks regarding the sources and the distribution of zakat and waqf funds which have been effectively implemented since July 1st, 2020.

Moreover, WCP-9 mentions two other aspects: (1) waqf supervisory board has to share data and information with related authorities to ensure the implementation of macroprudential policies; and (2) waqf supervisory board has to obtain a detailed information database on waqf beneficiaries (*mauquf' alaih*) from nazir to optimize an effective distribution scheme. These two issues cannot be implemented in Indonesia because they are not synchronized in waqf regulation.

The WCP-10 on Corrective Actions and the Strength of Sanctions from Waqf Supervisory Board justifies that sanctions can be imposed on waqf institutions, both nazir and Islamic banks, after corrective measures taken do not provide decent results. The regulation of the Minister of Religious Affairs No. 4/2009 Article 11 (3) validates that administrative sanction for a different level of mistakes by waqf institution is allowed, particularly in the form of (1) warnings; (2) temporary suspension; and (3) revocation of the license of Islamic banks to receive cash waqf. However, the regulation has not mentioned Islamic banks that do not provide cash waqf products yet they are licensed to accept cash waqf.

Table 4. The Result of The SEM Outer Model

Item		FL	CR	AVE	α
Report and Coordination			0.95	0.87	0.92
			4	4	7
RC 1	Islamic Bank and Nazir have coordinated and reported the development of Cash Waqf to the Ministry of Religious Affairs periodically.	0.89 7			
RC 2	Islamic Bank and Nazir have coordinated and reported the development of Cash Waqf to the Indonesian Waqf Board periodically.	0.91 5			
RC 3	Islamic Bank and Nazir have coordinated with the Ministry of Religious Affairs and the Indonesian Waqf Board to encourage the development of Cash Waqf.	0.99 0			
Regulation			0.93	0.74	0.92
			5	4	4
Reg 1	Waqf Law No. 41 of 2004 concerning cash waqf facilitates the collection of cash waqf.	0.93 5			
Reg 2	Waqf Law No. 41 of 2004 concerning cash waqf encourages Islamic Bank and Nazir to provide services for distributing the benefits of cash waqf to beneficiaries (<i>mauquf' alaih</i>).	0.90 5			
Reg 3	The regulations that require the presence of waqif at the time of handing over cash waqf to the bank as Islamic Bank facilitate the collection of cash waqf.	0.75 5			
Reg 4	The regulations that require the witness's signature to validate the cash waqf certificate given to the wakif facilitate the collection of cash waqf.	0.84 3			
Reg 5	The regulations requiring a nazir signature to validate the cash waqf certificate given to the wakif facilitate the collection of cash waqf.	0.86 5			

Government Support			0.916	0.68	0.88
				8	7
Gov 1	Existing government regulations have made it easier for Islamic Bank and Nazir to implement cash waqf.	0.717			
Gov 2	The Ministry of Religious Affairs has carried out the function of supervising the implementation of cash waqf properly.	0.805			
Gov 3	The Indonesian Waqf Board has performed the function of guiding Nazir well in the implementation of cash waqf.	0.821			
Gov 4	The Ministry of Religious Affairs provides training facilities to Islamic Bank and Nazir on cash waqf.	0.910			
Gov 5	The Ministry of Religious Affairs provides additional knowledge in the form of infographics, pocketbooks, and so on regarding cash waqf for Islamic Bank and Nazir human resources.	0.882			
Relation			0.942	0.84	0.90
				4	6
Relation 1	Islamic Bank periodically conducts visitations to nazir.	0.843			
Relation 2	Islamic Bank and Nazir believe that the nazir/Islamic Bank is supported by professional human resources in managing and distributing the benefits of cash waqf to the wider community (<i>mau'quf'alah</i>).	0.956			
Relation 3	The Islamic Bank has coordinated and collaborated well with nazir.	0.952			

Table 5. Discriminant Validity Test
Result

	RC	Relation	Gov	Reg
RC 1	0.897	0.556	0.673	0.451
RC 2	0.915	0.574	0.712	0.491
RC 3	0.99	0.624	0.736	0.535
Relation 1	0.508	0.843	0.429	0.756
Relation 2	0.572	0.956	0.364	0.576
Relation 3	0.636	0.952	0.381	0.509
Gov 1	0.437	0.424	0.717	0.66
Gov 2	0.545	0.407	0.805	0.594
Gov 3	0.57	0.15	0.821	0.519
Gov 4	0.625	0.32	0.91	0.681
Gov 5	0.845	0.448	0.882	0.6
Reg 1	0.587	0.668	0.749	0.935
Reg 2	0.598	0.711	0.742	0.905
Reg 3	0.154	0.49	0.319	0.755
Reg 4	0.285	0.373	0.533	0.843
Reg 5	0.316	0.41	0.521	0.865

3.4.2 Cash Waqf Governance

The WCP-13 on Good Nazir Governance affirms that waqf management should possess competencies in 3 areas to support good nazir governance and effective management structure, namely risk management, auditing, and business. Indonesian Waqf Board Regulation No. 2/2010 Article 2 paragraph (4) explains that at least half of the total members of nazir are required to have competence and expertise in the management of cash waqf. However, this regulation does not specify nazir's competency requirements in the field of risk management and reporting.

Furthermore, WCP-13 also explains that waqf supervisory board needs to improve the quality of the waqf institutions by providing certification. This aspect has been regulated and implemented in Indonesia. Indonesian Waqf Board Regulation No. 2/2010 Article 2 paragraph (2) point J emphasizes that nazir should get certification from Indonesian Waqf Board and Government Regulation No. 42/2006 Article 58 paragraph 2 explains that Islamic banks are allowed to receive cash waqf after the Ministry of Religious Affairs approves their appeal to become Islamic bank with cash waqf product.

The WCP-27 on Financial Reporting and External Audit states that the waqf supervisor must inquire about the waqf institutions to prepare and document the financial reports, annual reports, and the results of external audits. In Indonesia, the Regulation of Minister of Religious Affairs No. 4/2009 Articles 11 and 12 paragraph (4) explains that Indonesian Waqf Board can appoint a public accountant to examine reports on the management, development, and utilization of cash waqf management results conducted by Islamic banks and nazir. The Regulation of Minister of Religious Affairs No. 4/2009 Article 12 paragraph (2) gives details about the supervisory process of the waqf institutions, which is carried out through annual reports, monitoring, and evaluation of the management and development of cash waqf by nazir. Regulation of Minister of Religious Affairs No. 4/2009 could be one of the factors that prevent nazir to audit the cash waqf report, mainly because of the misinterpretation that the Indonesian Waqf Board would appoint a public accountant to examine report provided by nazir as part of its supervisory duties. Based on this guidance, the waqf supervisor must ensure that the financial statements that are published to the public annually have been audited by an independent external auditor. However, this is not specified in regulations. As a result, most nazirs rarely publish their annual report nor appoint a public accounting firm to audit their financial reports.

The WCP-28 on Disclosure and Transparency asserts that the waqf supervisory board must ensure the waqf institutions to publish the information related to the financial condition, performance, risk exposure, and risk management strategy and make it easily accessible by the public. However, this is not stated yet in regulations. The regulation stipulates that the preparation of financial reports, annual reports, and audit mechanisms by public accountants are carried out as the appointment by Indonesian Waqf Board.

Because of the lack of disclosure and transparency of cash waqf management in Indonesia, the annual collection of cash waqf in 2018 was Rp. 31.9 billion as reported by the Ministry of Religious

Affairs which was still far below the estimation of its potential of Rp. 180 trillion as reported in 2019 by the Indonesian Waqf Board (Ministry of Finance, 2019).

4. Conclusion and Recommendations

The governance of cash waqf by Islamic banks and nazir has not been able to fully support the development of cash waqf products to help the problem of poverty and economic inequality in Indonesia. The cash waqf governance in Islamic banks has not fully assisted the collection of cash waqf. Islamic banks still have not given proper attention to support cash waqf by the absence of the cash waqf department which is fully in charge of developing cash waqf products and by not allocating a budget for cash waqf socialization and promotion. In addition, there are not many Islamic banks with human resources specialized in managing cash waqf. Moreover, prior to July 2020, there was no regulation for Islamic Banks to specifically submit an adequate report regarding cash waqf performance to Financial Services Authority (OJK).

Nazir has little awareness of the importance of cash waqf transparency, therefore only a small number of nazir provide annual and financial reports to Indonesian Waqf Board, the Ministry of Religious Affairs, as well as reports to the public. Furthermore, the human resources management of waqf institution does not function properly to improve the performance of its personnel and to encourage further achievement of cash waqf.

The regulations and governance standards of cash waqf in Indonesia are not fully adequate to support the collection, management, and development of cash waqf. Current laws and regulations have not provided sufficient firmness for the relevant authorities and institutions in the supervisory process and to develop a 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 cash waqf regulation provides lack justification in certain aspects, cash waqf supervisory, and governance.

For these reasons, it is necessary to improve the cash waqf regulations including Indonesian Waqf Board authority to evaluate nazir certification, the guidelines and standards for cash waqf reporting, the submission of a detailed database mau'quf'alaih from nazir to Indonesian Waqf Board, the detail requirements for staff of nazir in terms of risk management and reporting skills, as well as the requirement for Islamic Banks to receive cash waqf and nazir to submit an audited financial report and publication. Moreover, the Ministry of Religious Affairs and Indonesian Waqf Board, as the waqf supervisors, coordinate with the Financial Services Authority and other relevant authorities in implementing cash waqf regulation as well as monitoring and enforcing the regulation.

Lack of transparency and lack of good governance practices in managing cash waqf reduce trust from waqifs to donate their money for developing waqf in Indonesia. Furthermore, it can cause an inefficient and ineffective cash waqf management in which the absence of a transparency process

will cause the public to make direct donations rather than leaving them with waqf institutions. Being in line with principles of trust will also produce a good reputation and it will be achieved with consistent behavior by eliminating any inconsistent actions from the waqf institution and insufficient supervision that can pose a risk of long-term loss for an institution.

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