

Risk Management for Cash Waqf Institutions Based on Good Corporate Governance Perspective: Lessons Learned from an Islamic Rural Bank in Indonesia

Atina Rahmah Mawadah

Universitan Islam Negeri Sunan Kalijaga, Yogyakarta, Indonesia

Email: atinarahmacc@gmail.com

Salman Abdurrubi Perwiragama

INCEIF University, Malaysia

iBantu Consulting and Academy, Singapore

Email. salmanroby@ibantu.id

Abdul Mujib

Universitas Islam Negeri Sunan Kalijaga, Yogyakarta, Indonesia

Email: abdul.mujib@uin-suka.ac.id

Abstract: Waqf, including cash waqf, is one of the Islamic social finance instruments that has been playing a significant role to develop community welfare throughout the history of Islam. Nowadays, Cash waqf significantly grows globally in countries like Saudi Arabia, Egypt, Kuwait, Turkey, Bangladesh, Malaysia, and Singapore. The unique feature of cash waqf is though it is subject to value volatility, shariah imposes that the value of cash waqf should not depreciate hence appreciation is required. Involving different parties in the process of cash waqf management, several risks may arise including moral hazards, conflict of interest, non-shariah compliance events, and so on. Thus, risk management becomes a must in managing cash waqf. Studies have deliberated on this issue and concluded with various findings. This study aims to use a Good Corporate Governance (GCG) perspective to examine risk management in the management of cash waqf at BPRS Barokah Dana Sejahtera. A qualitative method using semi-structured interviews was deployed to obtain primary data which has some extent of more comprehensive information to be analyzed rather than secondary data. This study concludes with some points including advantageous impacts on Cash Waqf Management Institution (LKS-PWU) regarding financial performance and the mauquf alaih nuance resulting from effective risk management. Moreover, the implementation of GCG principles as a framework for risk management in Cash Waqf institutions encourages the community to continuously contribute to cash waqf through LKS-PWU.

Keywords: Cash Waqf, LKS-PWU, Good Corporate Governance, Risk Management

Introduction

Since the Prophet's lifetime, the monetary waqf has been an essential component in the wealth of Muslims. Waqf is one of the Islamic philanthropic organizations that can enhance the welfare and quality of life of those who believe in eternal life, thus becoming an invaluable resource now and in the hereafter. One type of waqf is cash waqf, among its qualities has to do with how its value can completely alter or be flexible depending on the current market value. Cash waqf growth is somewhat advanced globally in several nations, including Saudi Arabia, Egypt, Kuwait, Turkey, Bangladesh, Malaysia, and Singapore. The number of cash waqf assets in Indonesia is expanding quickly, as well as in Malaysia in 1990 when stock waqf gained popularity and was widely approved to obtain money to be invested. Until now, the proceeds from investment returns have been used to fund various including the development of waqf land, the construction of mosques, the building of madrasahs, the development of religious facilities, and others.¹

Another case is the state of Kuwait, where waqf has existed ever since the nation was established. Waqf management in Kuwait is being developed using two different methodologies. First, productively develop waqf assets using various investment tools, then distribute gains following waqf provisions. Second, develop a waqf program to engage the community and encourage them to donate some of their riches for the welfare of everybody. The waqf money is invested in Kuwait into beneficial properties like homes, businesses, water wells, oil palm plantations, and fisheries.² Since the MUI Fatwa Commission's fatwa was issued on May 11, 2002, the cash waqf system has been well-known in Indonesia due to its high degree of flexibility and several advantages.³ Later, the fatwa no. 1131/DSN-MUI/X/2019 about waqf sukuk was issued. Waqf sukuk are capital market products linked to waqf based on sharia and optimized for religious aims, general welfare, and waqf assets.⁴ It is evidence of the government's role and contribution in creating cash waqf implementation schemes in Indonesia that this law has undergone

¹ Vika Annina Qurrata, dkk. "Effectiveness of Cash Waqf Management in Improving Community Welfare: Challenges and Opportunities", *Review of Integrative Business and Economics Research*, 10, Supplementary Issue 1, 343.

² Nur Azizah Lathifah, "Analysis of Waqf Implementation in Kuwait", *Jurnal Zakat dan Waqf: ZISWAF*, 6, 1 (2019): 12.

³ Rozalinda. M.Ag, *Productive Waqf Management*, (Jakarta: RajaGrafindo, 2016), 37.

⁴ Fatwa Dewan Syariah Nasional.Majelis Ulama Indonesia, No: 131/DSN-MUI/X/2019, Tentang Sukuk Waqf.

periodic reconstruction in addition to establishing and extending various cash waqf rules.⁵

Cash waqf is an asset that needs to be handled effectively, which entails a process of asset growth and addition. A high-value cash waqf produces substantial surpluses and benefits without affecting the cash waqf principal. One form of productive waqf is investing or investing in Islamic financial institutions. Every investment contains benefits as well as hazards. Consequently, risk management must be used to manage cash waqf to reduce potential dangers. Protecting assets in cash waqf investments is particularly important in developing values and assets in investing. After that, the cash waqf investment's returns will be provided to *mauquf 'alaih* through nazir partners without considering the personal benefit.⁶

Waqf assets are used to fund investments in various financial products, including high-liquidity stocks, sukuk securities, and Islamic bank deposits. Muhammad al-Taijani Ahmad al-Ja'ali stated that waqf assets could be invested through investing in the banking and financial sectors in the form of shares and sukuk *mudharabah* or *muqaradhah* in *al-Ittijahat al-Mua'aashirah fi Tathwir al-Iststimar al-Waqf*. Waqf monies collected can be deposited in Islamic finance portfolios. Then, according to Muhammad Nabil al-Ghanayim in *Waqf al-Nuqud wa Ististmaruha*, cash waqf investments may not be managed by banks that implement the *ribawi* principle, similar to ordinary banks.⁷

The potential for profit from collecting cash waqf through Islamic financial institutions is substantial. Waqf saves, waqf deposits, gold waqf savings, and waqf gateways are all investments that can be made. Because cash waqf management involves many parties, potential issues may arise, including moral hazard, conflict of interest, and sharia non-compliance in the form of a decline in the value of cash waqf assets. Regarding monetary waqf, the parties must try to keep the assets' worth permanently or temporarily.

A qualified nazir (institution) oversees the management of this cash waqf. However, it is not nazir who manages it independently. While the wakif will be the first party, the nazir himself will be the second, and the waqf fund manager will be the third, Nazir will work with third parties.

⁵ M. Al Arif dan N. Rianto, "Cash Waqf-Based Community Empowerment", *Jurnal Asy-Syir'ah*, 44, 11 (2010).

⁶ An'im Fattach, "Strategic Concept of Productive Waqf Development Through Sharia-Based Investment", *Management of Zakat and Waqf (MAZAWA)*, 3, 2, Maret (2022): 62.

⁷ Rozalinda, *Productive Waqf Management*, (Jakarta: Grafindo Press, 2016), cet. 2, 186.

Nazir himself might potentially produce risks like moral hazards from within. How can we ensure that a nazir will be dependable in handling financial waqf when his nazir certification is a scientific declaration of his proficiency in the profession? To reduce the risks that would arise, the three associated parties managing the cash waqf must apply good corporate governance.

Risk is typically described as a circumstance that a person or business encounters and which carries the potential for harm. Risk can also be described as something that, due to internal and external circumstances, might create problems and hurdles in realizing a company's vision and objective. In the words of Ricky W. Griffin and Ronald J. Ebbert, the risk is "Confidence about future events." In contrast, risk management is a structured approach or methodology for managing uncertainty connected to threats. Risk management is a series of human actions, including risk assessment, establishing strategies to manage it, and risk mitigation by empowering or managing resources. Several tactics can be used, including assigning risks to other parties, employing risk mitigation measures, lessening the adverse effects, and accepting some or all of the repercussions of particular risks.⁸

Therefore, the principles of Good Corporate Governance must be followed in waqf administration, especially for cash waqf, which has both significant benefits and significant hazards, to reduce the risks that would arise. In particular, its application to cash waqf risk management, as this is a crucial component of sound corporate governance (Good Corporate Governance). According to Demidenko and Mc Nutt, risk management is a way to accomplish organizational objectives and keep an eye on business management. One of the uses of cash waqf investments is risk management analysis of the investment to ensure the sustainability of waqf funds and avoid investment mistakes. The same goes for considering business and profitability levels. Moreover, cash waqf managers and investment managers provide corporate security.

Risk management, which specific standards should uphold, is one of the success factors in implementing good corporate governance. It will be possible to achieve solid corporate governance if risk management is appropriately implemented. Two of risk management's primary objectives are eliminating the probability of low-income being received by an institution and optimizing capital flow in this cash waqf. As a result, the

⁸ Yana Ayu Pradana dan Brady.., "Implementation of Risk Management on the Realization of Good Corporate Governance in Insurance Companies", *Trikonomika*, 13, 2, (Desember: 2014): 197.

practical and extensive implementation of good corporate governance will work hand in hand with this risk management. So, it is evident that the need for risk management in cash waqf management is urgent following the massive growth of cash waqf. The growth also necessitates active socialization and increased attention on managing cash waqf by nadir and Islamic Financial Institutions Receiver of Cash Waqf, specifically for cash waqf management. Waqf management that is run well will inspire public confidence in the security of endowment funds.

The effectiveness of cash waqf management in enhancing community welfare: challenges and opportunities has been the subject of extensive scholarly discussion. According to Vina Annisa emphasized that efforts to enhance waqf management must be made continuously to maximize and yield significant advantages. There are two different approaches. The first is internal, involving transparent financial management distinct from charitable contributions or other social programs. Second, employing the outside, i.e., the necessity to reiterate that cash waqf need not be in a substantial nominal quantity but simply as much as possible. Its effectiveness will raise people's living standards, enhance their welfare, and lower Indonesia's poverty rate.⁹

The second essay can be used as a reference by waqf organizations to increase their effectiveness, according to Siti Razifah Khamis' research on using waqf money in Malaysia. Because of this, producing transparent and trustworthy documents is essential to increase public trust in waqf organizations and serve as a foundation for creative approaches to improvising waqf money transfers inside such organizations. In this essay, the authors discuss three different areas of management comprising human resources management, document management, and risk management.¹⁰

The significance of Islamic banks' social functions was then discussed in Teguh Tresna Puja Asamra's third study. Islamic banks' social role in the area of cash waqf, however, is restricted to fund-raising. Therefore, they do not have complete control over the administration and distribution of the returns on the cash waqf investment. While it is true that the management of cash waqf requires a dependable and skilled institution, one of which is carried out by Islamic banks. It may be possible

⁹ Vika Annina Qurrata, dkk. "Effectiveness of Cash Waqf Management in Improving Community Welfare: Challenges and Opportunities", *Review of Integrative Business and Economics Research*, 10, Supplementary Issue 1: 355.

¹⁰ Siti Razifah Khamis, "Study On The Efficiency Of Cash Waqf Management In Malaysia", *Journal of Islamic Monetary Economics and Finance*, 4, 1 (2018): 79-80.

to improve cash waqf management by designating Islamic banks as nazirs.¹¹

Departing from the results of previous studies that have been stated above, the researcher assumes that some specific problems or areas need further penetration. The urgency of risk management through the effective corporate governance approach is the specialized area that requires a distinctive strategy and is the focus of studies. In this study, researchers will examine many issues, including how dangers in managing cash waqf may occur and how to reduce these chances. What are the repercussions of improper risk management? What effect does risk management have when it is used to handle cash waqf funds? Furthermore, how is the management of cash waqf funds in terms of good corporate governance? This research will focus on discussing the solutions to these queries.

Methods

This study's research methodology was descriptive research with a qualitative approach. In this case, informants were interviewed throughout the data collection stages, including the Chief Director of BPRS Barokah Dana Sejahtera, and the staff members who manage cash waqf. Because the primary data from the interviews is also supported by relevant literature, it is believed that the findings of this study will be consistent and contribute to the field of cash waqf studies.

Result and Discussion

Cash Waqf

There are two kinds of cash waqf. First is direct cash waqf, carried out through a Mudharabah Muqoyyadah contract, as stated in Article 14 of the Indonesian Waqf Agency Regulation (PBWI) No.1/2020. As subdivision (1) describes, direct cash waqf is "Management of cash waqf in projects administered by Nazhir and/or investors in partnership with Nazhir."¹² Second, Indirect Cash Waqf. According to BWI Regulation Article 15 No.1/2020, Indirect Cash Waqf may be conducted through

¹¹ Teguh Tresna Puja Asamra, "Juridical Study On The Optimization Of Cash Waqf Management By Islamic Banking In Indonesia", *Padjajaran Jurnal Ilmu Hukum (PJIH)*, 6, 3 (2019): 443.

¹² Indonesian Waqf Agency Regulations (PBWI), chapter 13 ayat (1) No. 01, 2020.

Islamic Bank Institutions, Islamic Cooperatives, BMT, and LKS, subject to the three requirements outlined in the Article.

Indonesians have been aware of waqf since Islam first spread there in the middle of the 13th century. At the time, Indonesia understood the value of waqf in raising the standard of living for its citizens. With the enactment of Law No. 41 of 2004, followed by PP No. 42 of 2006, Waqf legislation in Indonesia made considerable advancement.¹³ The government undertook extensive changes for Indonesia's waqf institutions to function again. The establishment of the Indonesian Waqf Board (BWI), which also controls and oversees the responsibility of a nazir, is one of the waqf institutions that has been activated, offering new promises for improving the management of Indonesian waqf. However, the finding of multiple waqf mosques and improperly managed land at that time led to criticism of the law as not being thorough enough.¹⁴ So, the monetary waqf itself still has to be developed and deepened.

With the most significant Muslim majority, Indonesia has much potential to expand cash waqf management like neighboring nations. This can be shown by observing the development of waqf management in adjacent countries. Consequently, after the passage of Law No. 41 of 2004 on Waqf, cash waqf has started to be acknowledged in Indonesia. Following the DSN MUI's issue of a fatwa addressing the cash waqf fatwa in 2012, the people of Indonesia have now begun to acknowledge the cash waqf.

The Ministry of Religion defines cash waqf as a waqf made in the form of money by an individual, a group of individuals, or an organization or legal entity. Consequently, a waqf given to a nazir in the form of cash is one that was established by a wakif. The Fatwa Commission of the Indonesian Ulema Council (MUI) issued a fatwa on cash waqf on May 11, 2002; this definition of waqf is consistent with that. "Holding property that can be used without losing the object or products, by carrying out legal acts against the object (selling, giving, or bequeathing it), to share the proceeds".¹⁵ Waqf may also refer to a waqf payment made through banking or Islamic financial organizations, which is then maintained by those institutions. The *mauquf 'alaih* will receive the

¹³ Yuli Yasin, "Waqf Futures and Indonesia's Need for It in Waqf Asset Management", *Jurnal Bimas Islam*, 10, IV (2017): 710-711.

¹⁴ Khaled Nour Aldeen,, "Cash Waqf From The Millennials' Prespective: A Case Of Indonesia", *ISRA International Journal Of Islamic Finance*, 14 (2022): 21.

¹⁵ Achmad fauzi, Risk Management in Cash Waqf Linked Sukuk Based on The Waqf Core Principle: A Preliminary Study, *BWI Working Paper Series*, BWPS no. 7/PKTD/ BWI/ IX/ (2021): 4.

advantages after that, but they will have to keep the waqf principle money aside to prevent its value from dropping. By investing in various productive and lawful business sectors, the primary cash waqf funds can grow in a way that will allow the proceeds to be used to advance the welfare of the people and the country as a whole.¹⁶

The cash waqf payment plan is described in Government Regulation No. 42 of 2006 About the Implementation of Law No. 41 of 2004 concerning Waqf. The cash waqf payment scheme mandates that the cash waqf not be paid directly to the nadzir but rather be transferred to the cash waqf management institution (LKS-PWU), which BWI and the Ministry of Religion have approved.¹⁷

According to what is mentioned in the PP's third paragraph, cash waqf cannot be managed independently and must be deposited by the nazir through the LKS-PWU as *wadhi'ah*. In the same way, Article 24 paragraph (3) emphasizes that LKS that can become LKS-PWU must meet the following requirements, including being involved in Islamic finance and having the ability to receive deposits or *wadhi'ah* goods. As of September 2022, 32 LKS have been recognized as LKS-PWU, comprising 6 Islamic Commercial Banks, 15 Sharia Business Units, and 12 Sharia Rural Banks.¹⁸

By showcasing the outcomes of their administration of cash waqf and using marketing to promote the launch of this sharia investment product, LKS-PWU is positioned to play a significant role in boosting public interest in the practice. It is also according to Hastuti that LKS PWU plays a significant part in the growth of cash waqf. Hence it is expected that all LKS PWU can endeavor to be professional in collecting and managing it. Accountability and integrity are also required to disclose how the waqf money was managed.¹⁹

Implementation of Risk Management in Cash Waqf Management Institution (LKS-PWU)

In general, the risk is defined as a situation experienced by a person or company where harmful events may occur because of risks. According

¹⁶ Supami Wahyu Setiyowati, "A Modern Fiqh Approach to Cash Waqf", *At-Tawazun*, 09, 01, Juni (2022), 23.

¹⁷ <https://www.bwi.go.id/1454/2016/05/04/posisi-bank-dalam-waqf-uang/>, diakses Februari 2022

¹⁸ <https://www.bwi.go.id/8382/2022/10/12/update-daftar-lembaga-keuangan-syariah-lks-penerima-waqf-uang-pwu-oktober-2022/>, diakses 12 Oktober 2022

¹⁹ Hastuti, "The Function of Islamic Financial Institutions Receiving Waqf Funds (LKS-PWU) for Cash Waqf Optimisation" *ZISWAF: Jurnal Zakat dan Waqf*, (2018).

to Ricky W. Griffin and Ronald J. Ebbert, the risk is " *uncertainty about future events.*" Risk management is a structured approach or methodology for managing uncertainty related to threats. In other words, it is a series of human activities, including risk assessment, strategies developed to manage it, and risk mitigation by empowering or managing resources. Several strategies can be implemented within the risk management approach, such as transferring risks to other parties, taking risk prevention, reducing the harmful effects of risks, and accepting some or all of the consequences of specific risks.²⁰

The risk management process is the process of anticipating and analyzing risks and coming up with effective and efficient ways to manage and eliminate them. According to Saiful Azhar, discussing risk management for Islamic Bank, the framework for risk management must provide supporting infrastructure for the bank to monitor the risk management process in all positions it takes. Risk management is not limited to a particular level, function, or department within an Islamic banking setting. Instead, it involves all banking activities in the front, middle, and back offices. The supervisory function of the board of directors places risk management as a top priority in ensuring that profits and capital are protected from potential losses or risks arising from systematic and unsystematic events.²¹

Meanwhile, according to Bramantyo Djohanputro, risk management is a systematic process of identifying, measuring, and developing alternative risk treatments and mapping them, and monitoring and controlling the implementation of risk management. ²²Based on the Waqf Core Principle, several waqf risks are found, including reputation risk and loss of waqf assets, operational risk, sharia compliance, risk of distribution of waqf proceeds, and country and transfer risks.²³

The application of risk management for Islamic Commercial Banks and Sharia Business Units is stipulated in PBI No. 13/25/PBI/2011. Risk is the potential loss due to the occurrence of a particular event. Meanwhile, the risk of loss is a loss that occurs as a consequence of a risk event, directly or indirectly, with losses that can be in the form of financial or

²⁰ Rozalinda ,..., 202.

²¹ Saiful Azhar Rosly, *Risk Management of Islamic Banks*, Virtual Modules for Independent and Cognitive Learning Experience, INCEIF, 2020.

²² S. Salwe, N. Eprianti, and ..., "Analysis of Risk Management in the Management of Cash Waqf," ... *Sharia Economic Law* , (2020): 674.

²³V. Sarasi, JI Farras, and JH Putri, "*Analysis of Cash Waqf Risk Management Using the Erm Coso Method*," *Scientific Journal of Islamic Economics*, (2022).

non-financial. Then it can be concluded that LKS-PWU is a business institution that not only generates profits but can also suffer losses due to something happening.²⁴

Implementing risk management at the LKS-PWU is an essential part of managing cash waqf because the circulation, investment, and development of the main cash waqf funds are under the responsibility of the LKS-PWU. To provide protection and security for the main cash waqf funds, it is necessary to identify the LKS-PWU to which the waqif will go before making cash waqf payments.

Minimizing the impact of risk events and economic turmoil on Islamic banks, it can be done by strengthening the regulation of the cash waqf system. Islamic banks also require regulations to protect customers and the economy from process or procedural failures. Implementation of effective risk management can at least be carried out in the following areas:²⁵ 1) active supervision by the Board of Commissioners, Directors, and Sharia Supervisory Board; 2) adequacy of policies, procedures, and setting limits on risk management; 3) adequacy of risk identification, measurement, monitoring, and control processes as well as a risk management information system (MIS); 4) internal control system.

Waqf assets can be invested in several products in the banking and financial sectors, including; *mudharabah* or *muqaradhah* sukuk and shares. The percentage of income (*return*) for the previous period and the level of risk of the investment significantly affect how much funds will be channeled in the form of Islamic mutual funds, Islamic capital markets, Islamic deposits, and Islamic bonds by the LKS-PWU.²⁶ Forms of cash waqf investment that can be applied as business capital include:²⁷ 1) *Mudharabah* ; provide cash waqf funds as business capital with a percentage of benefit sharing under a mutual agreement; 2) Purchase property for rent; then the profit will be handed over to *the mauquf 'alaih* , or it can be resold to get a profit that is more than the purchase price; 3) *musyarakah*; namely by investing in projects that are already well established or currently under construction; 4) Become an investor in several economic projects by collaborating with other investors; 5) *Ishtisna'*; with the principal cash waqf fund, developed by buying or

²⁴ Bambang ,... 30.

²⁵ Bambang ,... 36.

²⁶ Rozalinda,... 186.

²⁷ Rozalinda ,... 719

making certain goods, can also be done by ordering goods currently needed by the market, then resold to the market for profit.

Then the implementation of risk management in the cash waqf management maintains a balance in the development of principal waqf funds, then prevent and avoids investment mistakes. Therefore before investing, the waqf manager seeks to identify the security and level of business profitability to anticipate the risk of loss that will threaten the stability of the waqf principal Money. Here are the steps that can be taken: 1) Perform risk management analysis of the investment to be made; 2) Conduct market analysis to ensure market guarantees of output; 3) Perform investment feasibility analysis; 4) Monitor the investment realization process; 5) Do an evaluation.

Indah Sulistya²⁸ explained that several factors determine the success of an organization and institution. Among these factors is the leadership's ability to operate the institution and obtain internal resources, and the environment must be used. It can be referred to as strategic management, the organizational process of formulating and implementing a strategy. Strategy exists for a fundamental reason, including why an organization stands based on the vision and mission of the organization. Likewise, waqf management is very influential in the management of cash waqf, as well as the application of risk management. This strategy can be applied to cash waqf management to provide more investment returns for cash waqf funds. It requires an accurate strategy to develop and manage cash waqf funds.

Investment in Islam has a feature, namely the existence of a vision that is both individual and social. In Islamic investment, there are five visions including *Muhafadzho al maal wa tanmiyathihi* (safeguarding and managing assets), *tadawuluts tsarwah* (distribution of wealth), *at-tanmiyah al-iqtisodiyah* (economic development) *at-tanmiyah al-ijtimaiyyah* (community development), *al adl*. So with that, all forms of activity carried out in cash waqf investments will not escape the five principles above.

The principle of prudence in investing must always be maintained and maintained so that the principal of cash waqf funds is not reduced. As explained by al-Mahalli, the nazir in managing and developing waqf assets should consistently maintain the waqf assets and the results carefully. Law Number 41 of 2004 confirms that in terms of the development and management of waqf assets, a guarantor, namely the

²⁸N. Hasanah, I. Sulistya, and MI Irfany, "Cash Waqf Management Strategy by the Indonesian Waqf Agency (BWI)," *Al-Awqaf: Journal of Waqf and Islamic Economics*, 13, 1, (2020): 43.

Sharia Guarantee Institution, is required. Likewise, investments outside Islamic banks must be registered with Islamic insurance, as stipulated in Government Regulation 42 of 2006.²⁹ Likewise, the government's decision to appoint LKS as nazir or partner in cash waqf management is due to the existence of the Deposit Insurance Corporation (LPS), which guarantees LKS a nominal value of 2 billion rupiah. To make the image of cash waqf management at LKS more trusted and safe, it can also attract other customers to make cash waqf at the LKS. Even the state is a guarantor for the security of the cash waqf principal circulation in it. The government is pursuing CWLS because the profits are more significant than other cash waqf instruments. Also, a state guarantee that certainly has high credibility in guaranteeing this country's Sukuk.

Principles of Good Corporate Governance

The concept of corporate governance began to be studied intensively in the 1990s when many companies in the world received capital from institutional investors. At the same time, many corporate financial scandals that received funding from institutional investors resulted in collateral damage to the stakeholders of a company. It happens because the institution or company is managed by management, while the shareholders do not directly know the details of governance. Then, it creates a potential conflict of interest between shareholders, company management, and external stakeholders. This phenomenon triggers discourse and the development of the concept of good corporate governance (GCG) to mitigate unwanted negative things. The OECD (Organization of Economic Cooperation and Development) defines corporate governance as "a structure of relationships between company management, the board of directors and commissioners, shareholders and related stakeholders. The structure is formed in line with the company's vision and mission, and the methods used to realize both are accompanied by a way to measure the company's performance. (OECD, Principles of Corporate Governance (Paris: OECD Publication Service, 2004), 11.

The increasing variety of sharia banking products and sharia service networks shows that public interest in the sharia banking industry has increased. Sharia banking must implement the principles of Good Corporate Governance in UUS and BUS effectively and build a healthy and resilient sharia banking industry. This implementation aligns with the

²⁹R. Rozalinda, "Risk Management of Cash Waqf Investment," *ISLAMICA: Journal of Islamic Studies*, (2012): 305.

Indonesian Corporate Architecture (API)—that way, good corporate governance is needed in Islamic banking.

This system can regulate the functions of organizational devices within a company to run effectively and optimally, known as Corporate governance. The concept of Corporate governance is based on agency theory which was first stated by Jensen and Meckling (1976). Agency theory explains agency relationships that usually occur in a company, including the relationship between agents and principals within the company.³⁰

The implementation of these GCG principles must be based on five basic concepts. First is transparency, namely openness in disclosing material and relevant information and the decision-making process. Second, accountability is the function and implementation of the responsibility of the bank's organs so that the management runs effectively. Third, accountability is the conformity of bank management with applicable laws and regulations and the principles of sound bank management. Fourth is professionalism, namely having competence, being objective and free from influence or pressure from any party (independent), and having a high commitment to continue striving to develop Islamic banks. Fifth is fairness and equality in fulfilling the rights of stakeholders based on agreements and applicable laws and regulations.

GCG implementation in Islamic banking aims not only to obtain bank management following the five basic principles. Next, it is also aimed at broader interests, among which are to safeguard the rights of stakeholders and improve compliance with applicable laws and regulations as well as generally accepted ethical values in the sharia banking industry.³¹ According to Bank Indonesia in PBI number 11/33/PBI/2009, good corporate governance should apply these five principles. Rizki Fadhilah deliberates GCG as an excellent organizational governance mechanism for managing resources efficiently, effectively, economically, and productively with the above principles to achieve the organization's goals.³²

In addition, Ananto Triwibowo explains that it is better to use the

³⁰ E. Khristian, H. Karamoy, and ..., "Analysis of Risk Management in Realizing Good Corporate Governance (Case Study at Pt Angkasa Pura I (Persero))," ... *Accounting Research And ...*, (2021).

³¹ Bambang Rianto, *Risk Management of Islamic Banking in Indonesia*, (Salemba Empat: Jakarta, 2013), 397-398.

³² R. Fadhillah, "The Influence of the Implementation of Good Corporate Governance on Financial Performance and Financing Risks in Islamic Commercial Banks," *Proceedings of the Industrial Research Workshop and ...* (jurnal.polban.ac.id, 2018)

principles of Good Corporate Governance in managing cash waqf as has been implemented by BWU/T MUI because these principles can assist in the development of waqf and its management.³³ Therefore, this principle must be applied in waqf management, especially cash waqf, which has excellent benefits and significant risks. Again, applying risk management in managing cash waqf is necessary because risk management is an important pillar of good corporate governance (Good Corporate Governance).

Implementing risk management in an institution, significantly LKS-PWU, will greatly affect their corporate governance. That way, better risk management will support the realization of Good Corporate Governance. Therefore risk management is part of GCG, which is continuous and cannot be separated. Risk mitigation, identification, and management of risks will significantly affect the value of assets coveted by a company.

Risk Management of Waqf Assets in BPRS

This study's main focus was the information collected from a BPRS employee, especially about BPRS Barokah Dana Sejahtera, which was established as LKS PWU on October 18, 2021. The data show that there are seven registered wakifs with various nominal values. The wakifs in the LKS-PWU are separated into temporary and permanent cash waqf, with the enormous nominal equivalent of 150 million to a minimum nominal cash endowment of one million rupiahs.

Cash waqf for a set period—1 year, three years, or eight years—is what the BPRS's innovation product consists of. So the other is waqf money *muaabbad* or forever. Then, this cash waqf is placed in the BPRS as LKS PWU as savings and deposits. Regarding cash waqf, it is sufficient for the wakifs to place their trust in the LKS or nazir in charge of it because they will try to protect the cash waqf principal and return it upon maturity. Nazir will handle his waqf assets this way, obtaining a capital loan to do so, and will pay it back on schedule. So the nazir or LKS is required to restore the waqf money to the client on a temporary or term basis when it is due.³⁴ It is possible to make progress by maximizing Nazir's abilities and position in the development of waqf, as well as via

³³ Triwibowo, "Application of Good Corporate Governance Principles in Cash Waqf Management at the Yogyakarta MUI Cash Waqf Board." *Tapis: Jurnal Penelitian Ilmiah*, 4, 1 (2020), 123-146.

³⁴ Yuli Yasin, "Waqf Futures and Indonesia's Need for It in Waqf Asset Management", *Jurnal Bimas Islam*, (2017), 713.

literacy instruction and extensive outreach on cash waqf to waqf practitioners and the local population.³⁵

In Government Regulation No. 42 of 2006 Concerning Implementation of Law No. 41 of 2004 About waqf, the term waqf is fully clarified. Later it was also highlighted that the term waqf could not be applied to the land waqf system. It is clarified in Article 18. The term waqf can only be used with monetary waqf for a specific time. on land, however, must be permanent.

In 2021, after almost a year of planning, the ministry of religion officially established BPRS Barokah Dana Sejahtera as Cash Waqf Management Institution (LKS-PWU). The BPRS is working with Dompot Dhuafa as a nazir because they have not yet achieved official nazir status. Then, the bank's operational risk management is merged with applied risk management. The concerned parties have made their best efforts regarding the five principles that make up the idea of good corporate governance. In every report delivered to Nazir, the BPRS has adopted transparency, for instance, detailing the profits made from the waqf funds that have been collected. Upon the maturity of the temporary waqf funds, this report is presented. Similar to the wakif will agreement, which must be included in the cash waqf certificate, it has been agreed to offer transparency in the final report when it is due only based on confidence between the LKS-PWU and the nazir and wakif.

Then, from the other risk management perspective, the waqf funds this money, so it must be rotated to create. In this way, the wakif who gave money to the LKS-PWU will receive profit sharing, which will subsequently be paid to the *mauquf 'alaih* through the nazir. As a result, the Bank (LKS-PWU) will make every effort to generate cash waqf funds that are gathered through channeling money. The two ways money is distributed are as finance for consumers and deposits in other banks. Profit sharing will be given, even though it will only apply to a small portion of the distribution of funds kept in other institutions. Profit sharing will also be applied to the second consumer distribution, which will take the form of financing.

Mauquf 'alaih will then receive a portion of this profit-sharing margin. The bank will mitigate risk through good and meticulous financing analysis and permitted collateral (collateral) so that when congestion occurs, the bank can promptly carry out immediate execution.

³⁵ Yuli Yasin, ..., 720.

It will prevent the channeled funding from becoming clogged. Cash waqf funds are secured and guaranteed in this way. It is a method of risk management in disbursement finance, ensuring that the waqf money will be preserved, maintained, and unquestionably produced income. By doing so, the cycle of cash waqf is preserved.

Waqf cash funds are guaranteed and secure in this way. The bank will perform risk mitigation through good and thorough financing analysis and permitted collateral (collateral) so that when congestion arises, the bank can promptly carry out immediate execution. It will prevent the channeled funding from becoming clogged. This sort of risk management takes the shape of disbursement finance, ensuring that the waqf funds will not be depleted, that they will be kept in place, and that they will unquestionably produce income. By doing so, the cycle of cash waqf is preserved. The government invites wakifs, potential wakifs, and the community to give money through Cash Waqf Linked Sukuk (CWLS). CWLS could be one of the best choices for all cash waqf ways due to the security of the waqf principle upheld and guaranteed by the state. It is one of the government's attempts to lower the risk of managing cash waqfs.

Conclusion

This study concludes with five findings. First, the financial waqf might serve as a springboard for Indonesian society to raise the level of the Ummah's welfare. Second, the appointment of Islamic Banks by the Indonesian Waqf Board and the Ministry of Religion as Cash Waqf Management Institutions (LKS-PWU) is viable because it has a Deposit Insurance Corporation whose job is to guarantee the principal investment of the cash waqf up to 2 billion rupiahs worth. This guarantee is a step for the regulator to reduce the potential risks that will occur. Third, The principle of Good Corporate Governance is one of the tactics employed by LKS-PWU in managing the cash waqf. Fourth, the significance of risk management in the administration of cash waqf funds, namely the implementation of risk management on associated parties, particularly by LKS PWU, through competent and thorough financial analysis. Finally, the implementation of appropriate risk management will impact the realization of strong corporate governance, which is good also on an LKS-PWU.

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