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Waqf and Impact Sustainable Finance in Indonesia: Lessons from ESG Reporting Concept

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Abstract

Introduction: The expansion of waqf institutions in Indonesia is increasingly promising. However, not many implement a strict reporting system. Moreover, most of the waqf institutions are managed by Nazhir individually. The application of ESG reporting is important to see how a waqf institution is seen as having an impact on a number of issues related to the existence of the institution in the context of sustainable finance.

Purpose: Environmental, social, and governance (ESG) reporting is one method of reporting the sustainable impact of a company's performance as measured in a number of analytical tools. This study aims to reveal ESG aspects in reporting by waqf institutions.

Methodology: This study employs a qualitative approach by utilizing a meta-synthesis of ESG literature. This is a systematic exploratory research strategy for building or extracting references from qualitative research.

Findings: This research found that ESG concept is also relevant to be applied in philanthropic institutions such as waqf institutions in Indonesia. Maqashid sharia is the principle in Islamic institution that mandates transparency and responsibility not only to the community, but also to the surrounding environment to realize modern organizational governance.

Paper Type: Research Article

Keywords: *ESG reporting; Waqf Institution; Sustainable Finance*



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INTRODUCTION

The development of waqf in Indonesia cannot be separated from the role of recorded history since the Dutch colonial era. In its development, according to Susono Yusuf (Khayun, 2020) the metamorphosis of waqf is divided into several phases; First, the traditional phase that the use of waqf is still intended for consumptive needs. for example the construction of mosques, schools and graves. Second, the transition phase is a portrait of community empowerment through waqf (productive). Third, the professional phase shows that the development of waqf has been adopted in the context of macroeconomics as a sharia financial instrument. for example, innovation in the integration of waqf with sukuk as a financial instrument that pays attention to broad economic development. Indonesia is in the professional phase, meaning that the diversity of waqf assets is increasingly varied, such as movable assets, including stock waqf, deposit waqf, so that it must be supported by professional and sustainable management.

Indonesia as a country with a majority Muslim population is predicted to have great potential for waqf wealth to be developed. Indonesia has waqf land assets covering an area of 4,359,443,170 square meters spread over 435,768 places and the dominance of its use is 80 percent for the construction of places of worship (Hiyanti et al., 2020). While cash waqf according to data from the Indonesian Waqf Board (BWI) the accumulation of cash waqf collection is Rp. 819.36 billion with a portion consisting of waqf through cash of Rp. 580.53 billion and cash waqf of Rp. 238.83 billion (Tanjung, 2021).

The achievement of this figure is far from the potential accumulation of cash waqf of Rp180 trillion annually. Based on the survey from Waqf Research Team of The Fiscal Policy Agency (2019), accumulation of cash waqf collection only raise up to Rp255 billion. The assumption of the potential for waqf is also supported by the results of a report by Charities Aid Foundation (2021) that states that Indonesia, apart from being a country with a majority Muslim population, is actually considered a country with a high level of public generosity. This means that the potential and realization of waqf collection in the community should not experience significant obstacles.

Some previous studies indicate that the gap between the potential and realization of waqf collection is due to several factors; (i) the low quality and professionalism of nadzir as waqf asset manager. Nazhir's quality in managing waqf is still considered traditional, both in terms of implementation and institutional governance; (ii) the low quality of reporting by nazhir on the activities of collecting and distributing waqf; (iii) lack of waqf literacy and inclusive; (iv) lack of understanding about contemporary waqf; (v) nazhir is not the main occupation; (vi) low waqf supervision system; (vii) there is no standard on waqf education from primary school level to higher education level (Huda et al., 2017; Rifai, 2020; Waqf Research Team of The Fiscal Policy Agency, 2019).

Aspects of transparency and accountability are important aspects as a form of social responsibility so that the community knows the collection and designation of waqf for waqf beneficiaries. This is supported by research conducted by Fitri & Wilantoro (2018) which states that the priority factor that hinders the development of waqf is the waqf management unit or nazhir is rated low on competence and waqf management. The quality of waqf management can be influenced by the performance of the nazhir, so there is a need for cooperation or synergy between nazhir and other institutions such as Islamic banks (Hiyanti et al., 2020). The main challenge for waqf institutions is to increase public trust, in this case it takes professionalism in the management and reporting of waqf to waqf supervisory institutions (Mutmainah, 2018). In accordance with the mandate of the legislation that every waqf institution is required to report on waqf management to the Indonesian Waqf Board (BWI).

On the other hand, there is a trend in demand for non-financial reporting to companies or business institutions to provide information on non-financial activities (Albitar et al., 2020). Non-financial reporting aims to inform how the company or institution conducts business and where the company or institution invests funds. Disclosure of the environment, social and governance or what is familiarly called ESG is an approach in carrying out continuous reporting on the activities of a company or institution in terms of environmental, social, and governance aspects. ESG reporting for investors, governments, policy makers, companies/institutions, non-governmental organizations becomes important as part of the strategy of companies/institutions in showing performance (Albitar et al., 2020).

Several studies have shown that the environmental, social and governance aspects of reporting are related to corporate social licenses and financial sustainability in the long term (Albitar et al., 2020; Kamela & Alam, 2021; Kim & Li, 2021). Apart from that ESG reporting has relevance to the implementation of social finance in Islam such as waqf and zakat. however, in practice ESG reporting in the development of Islamic social finance has not developed rapidly (Al-Mubarak & Goud, 2018).

This study aims to reveal environment, social, and governance (ESG) aspects in reporting by waqf institutions. This is carried out by identifying and analyzing the important of sustainable reporting by waqf institutions because waqf is an Islamic financial instrument that should be give the sustainable benefit for public.

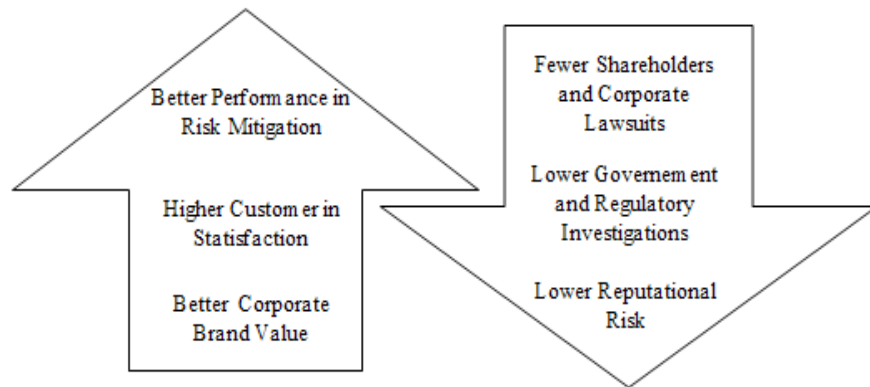
LITERATURE REVIEW

The Concept of of Environment, Social and Governance

The ESG concept is part of corporate social responsibility reporting. This concept is also taken into consideration in reporting corporate social

responsibility (Qoyum et al., 2021). ESG consists of three indicators, namely environmental, social and governance. Information in ESG is required by interested parties, one of which is investors. Investors tend to value the information contained in the ESG to consider making an investment (Amir and Serafeim, 2018).

Several previous researchers used the ESG indicator to examine the relationship between the company's sustainability and the company's financial performance (Yilmaz, 2021). The results of this study indicate that the total score of ESG has a significant impact on company performance. On the other hand, there is research on the influence of Islamic labels on environmental, social and governance (ESG) performance responsibility (Qoyum et al., 2021). Overall, the results of the study indicate that companies that have an Islamic label have good environmental and social performance, but not in terms of governance.



Source: Al-Mubarak & Goud (2018)

Figure 1. Comparison between Higher ESG Performance and Lower ESG Performance

Waqf in Indonesia

Waqf is a form of philanthropy that has great potential in Indonesia. Given the population in Indonesia is dominated by the Muslim community. The level of waqf literacy in Indonesia in 2020 according to the Indonesian Waqf Agency is 50.48 percent (Indonesian Waqf Board & Ministry of Religion Republic of Indonesia, 2020). Although this literacy rate is quite low, in 2020 the cash waqf funds that have been collected amounted to 391 billion (Tanjung, 2021).

The philanthropic institution was established with the aim of distributing social funds in the form of zakat, waqf, infaq and sadaqah. Institutions spread across Indonesia include the Indonesian Waqf Board (BWI), Rumah Zakat Indonesia (RZI), Dompot Dhuafa (DD), Post Justice Cares for the People (PKPU), Indonesia Amil Zakat Agency (BAZNAS), private zakat institutions and other social institutions that have divisions

for empowerment of zakat, alms, infaq and waqf (ZISWAF). Funds collected in these institutions are channeled to communities in need (Said & Amiruddin, 2019).

The weakness in the development of waqf in Indonesia is due to the lack of socialization to the community and the lack of professional human resources (nadzir) (Rusydiaana & Rahayu, 2019). These weaknesses can be overcome by joint commitments from various layers, both from regulators, academics and practitioners in supporting waqf productivity in Indonesia. Waqf reporting is also considered important to show the existence of transparency and the form of accountability of waqf institutions. The reporting quality of waqf institutions can be influenced by five factors, including relevance, representation of trust, understanding, comparability and timeliness (Hanefah et al., 2021).

METHODOLOGY

This study uses a qualitative method by adopting a meta-synthesized literature on ESG. This method is known as an exploratory research method which is structured to build or extract references from qualitative research. This step aims to develop a theory that can explain the findings in qualitative studies (Lee, 2010). Technically, electronic database search in the Google Scholar are undertaken using the keywords "Environmental, Social and Governance (ESG)" on 3 August at 12.58 am Indonesian time. As a consideration in open access to literature, this platform is used in this research regarding the word ESG key above.

Table 1. Summary of Literature Selection

Description	Number
Using the keyword "Environmental, Social, and Governance (ESG)" in everywhere	4,940
Using the keyword "Environmental, Social, and Governance (ESG)" in title	99
Other than the English language	-34
Not relevant based on abstract or summary screening	-27
Not full text available or inaccessible or double file	-10
Not relevant based on full screening	-7
Total Documents for Systematic Literature Review	21

Source: Authors (2021)

RESULTS

The Existence of ESG in Certain Sector

World trends regarding policy making related to investment have an impact on environmental disasters, resource scarcity, changes in international governance standards, social responsibility, labor management and supply chain concerns. These conditions encourage requests for companies or institutions to publish sustainability reports by emphasizing Environmental, Social and Governance (ESG) factors in reading opportunities and managing long-term risks. Several studies related to ESG show that ESG factors in sustainability reports are closely related to responsibility, corporate social license and financial sustainability in the long term (Albitar et al., 2020; Kamela & Alam, 2021; Kim & Li, 2021). This means that sustainability and responsibility in managing operations and making company policies are important to inform investors, government, non-governmental organizations and the public.

Several world companies or institutions that have a focus on Sustainability Development Goals such as the United Nations (UN), the Global Sustainable Investment Alliance (GSIA), the European Sustainable Investment Forum (Eurosif), the Forum for Sustainable and Responsible Investment (USSIF) and the Middle The East Sustainable Investment Forum (MESIF) recommends adopting ESG factors in the policy-making process. In the context of Indonesia, the topic of ESG has been stated in the regulations issued by the Financial Services Authority (OJK), namely POJK Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies. The purpose of the regulation a. availability of funding sources for sustainable development purposes, b. increasing the resilience and competitiveness of Financial Services Institutions, Issuers, and public companies (Financial Service Authority, 2017).

ESG issues are often found in the financial industry sector and in essential sectors which are considered to be the driving force of the economy and business. Based on a survey conducted by the Center for Risk Management and Sustainability Studies Indonesia in 2019 on 171 respondents consisting of practitioners and professionals who occupy various positions in a company, data is obtained that the majority of business people in Indonesia have not implemented structured ESG criteria in policy making. within the company (CRMS Indonesia, 2019).

This phenomenon proves that Indonesia is quite lagging behind in terms of implementing ESG in the sustainable reporting of companies or institutions. However, ESG issues also have relevance if applied to Islamic philanthropic institutions such as waqf institutions.

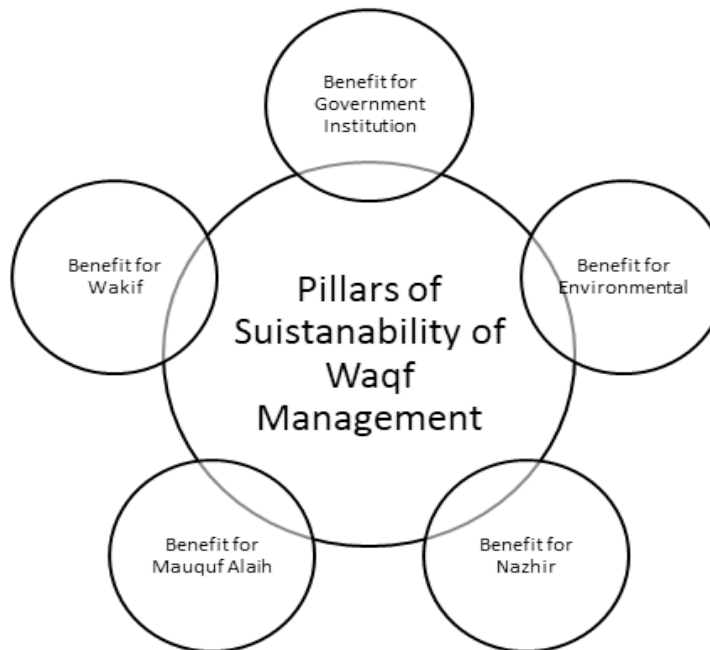
A Conceptual Framework of ESG in Waqf Institution

To ensure long-term financial stability and sustainability, philanthropic institutions, in this case waqf institutions, need to consider alternatives in responding to public demands and encouraging the creation of sustainable and responsible waqf practices. In line with the opinion of Al-Mubarak & Goud (2018) stated that:

Islamic finance in principle addresses the issues covered under the concepts of SRI and ESG integration. Human beings, commissioned as the stewards (khulafa) of God on Earth, are responsible for maintaining the well-being of the environment. Hence, Islamic financial institutions should not overlook the trust (amanah) and responsibility (mas'uliyah) they have, and this should be reflected in their investments and financial transactions.

Waqf institutions are obliged to carry out transparency and accountability by adopting ESG elements in sustainable reporting. However, in practice the principles of transparency and accountability using the ESG element have not been applied optimally by both business-based companies and waqf institutions as an obligation in making continuation reports on waqf activities.

This challenge can be solved by maximizing ESG reporting as part of accountability to the public for the various activities of waqf institutions. ESG reporting is thus very relevant in the Indonesian context because philanthropic institutions such as waqf are closely related to the elements in it.



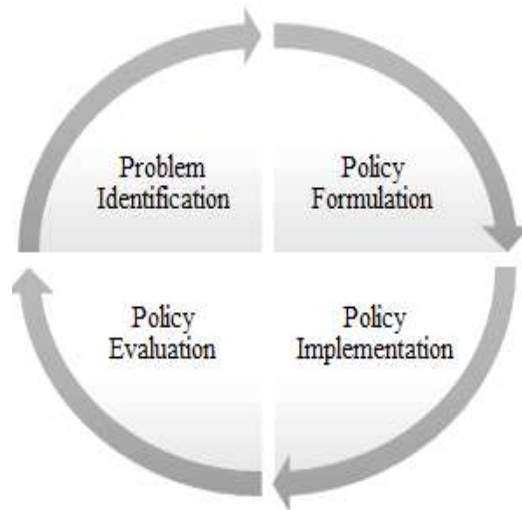
Source: Adopted from Al-Mubarak & Goud (2018)

Figure 2. Pillars of Sustainability of Waqf Management

The sustainability of waqf management needs to be supported by a modern and accommodating reporting system to prevent misappropriation of the management of waqf results that benefit certain individuals and groups. It is well known that the majority of waqf institutions are managed by individual subjects (Megawati, 2014). This type of management tends to have the potential for fraud and abuse. In a sustainable waqf management scheme based on ESG, waqf is simultaneously allocated to several potential sectors:

1. Benefit for government institutions, waqf management by waqf institutions is obliged to report to waqf supervisors in this case to the Indonesian Waqf Board and or the Ministry of Religion. Supervision is related to management governance, accounting governance, compliance and so on.
2. Benefit for the environment, waqf management runs with sustainable development goals that have a positive impact on the environment. Such as waqf management that prioritizes energy reduction strategies, efficiency in reducing climate change, minimizing toxic waste results, managing water risks and so on.
3. Benefit for Mauquf Alaih (beneficiaries), a waqf program for beneficiaries based on targets based on sustainable development.
4. Benefit for Wakif, as the party that gives mandate to waqf managers, Wakif has the right to know how to manage and distribute waqf to beneficiaries. Thus, it is Nazhir's obligation to carry out transparency and accountability to the public, especially wakif.
5. Benefit for Nazhir, As a waqf manager, Nazhir's rights need to get the main attention in carrying out performance. Such as remuneration, work facilities, working environment, investment in training/skill upgrading, work safety and ensuring privacy.

These five pillars are the key to waqf management which will not only benefit one party, but also provide wider and multi-sectoral benefits, in addition to its sustainability that supports environmental sustainability, modern and adequate social institutions and organizational governance, as well as regulatory and policy support. various stakeholders, especially the government which has a sustainable impact for generations.



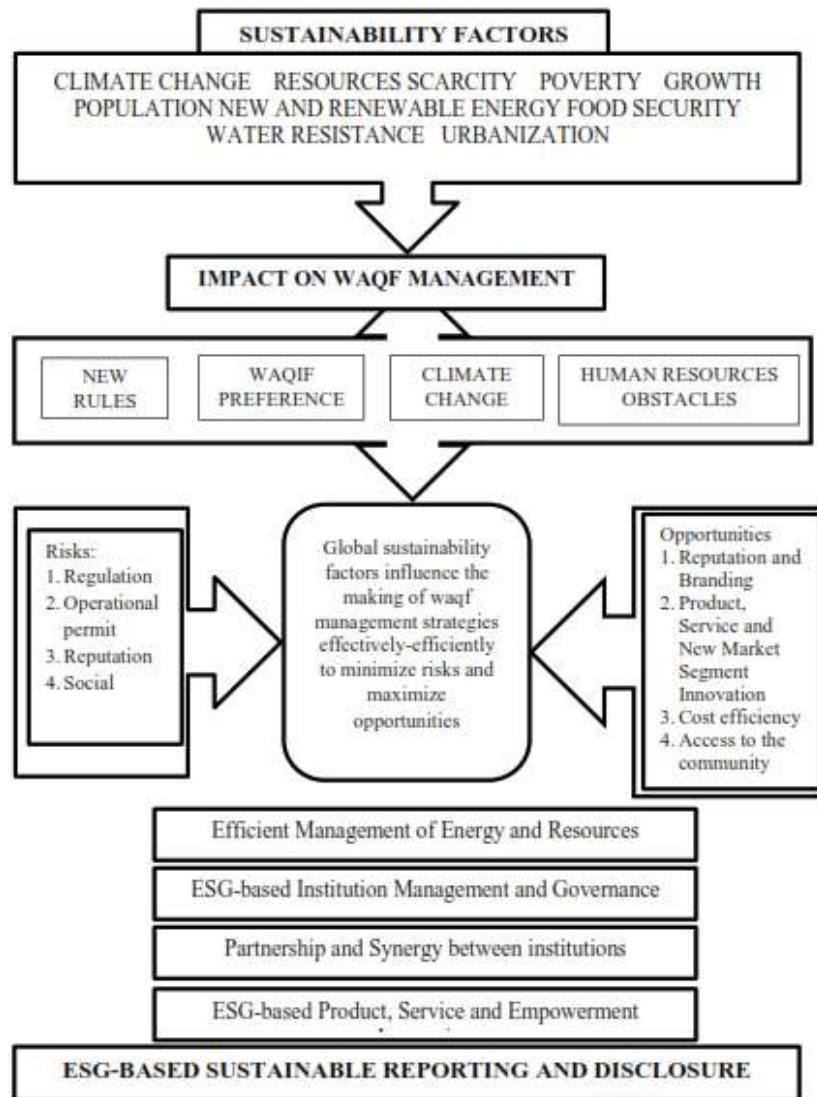
Source: Adopted From Centers for Disease Control (2015)

Figure 3. Policy Making Process of Waqf Regulatory

As an effort to implement the ESG element in reporting waqf activities, special regulations or policies are needed that discuss sustainable regulations for philanthropic institutions. The process of making regulations or policies goes through several stages: First, problem identification. In this stage, we need to identify the problem before deciding which solution to take. In the context of waqf, every important regulation or policy considers problem points such as transparency and accountability issues. Second, policy formulation, is the development of policy alternatives for dealing with problems on the public agenda. Policy formulation in the realm of waqf involves government institutions, namely the Ministry of Religion and the Financial Services Authority, also involves the Indonesian Waqf Board as an organizational layer that is directly related to practice.

Third, policy Implementation, involves all of the activities designed to carry out the policies (Centers for Disease Control, 2021). In this period, the regulations that have been made are implemented by waqf institutions. The next step needs to be evaluated. Policy evaluation, may inform and improve policy development, adoption, implementation, and effectiveness, and builds the evidence base for policy interventions (Centers for Disease Control, 2015). Regulations related to waqf, in the implementation process will produce stages for evaluation. The evaluation stage is important because it aims to measure the effectiveness and efficiency of the success of a regulation from the government to the recipient of the regulation, namely the waqf institution.

The following is an offer of a scheme or model for the implementation of ESG Reporting at waqf institutions:



Source: Adopted from Al-Mubarak & Goud, 2018; Albitar et al., 2020; Kamela & Alam, 2021

Figure 4. Conceptual Model of ESG Reporting in Waqf Institution

This scheme is designed to analyze the role of EGS reporting in waqf institutions. By taking good practice from implementing ESG elements in companies that have already done so, waqf institutions can develop this reporting model to create a sustainable reporting pattern. The government through the Ministry of Religion and Financial Services Authority can facilitate this scheme through regulations related to ESG-based sustainability reporting for waqf and other philanthropic

institutions in Indonesia. This regulatory support is important to make ESG mandatory for waqf institutions, which will not only turn them into modern institutions, but also not let go of the social character that has become the main characteristic of waqf institutions.

In a global context, sustainability factors such as climate change, scarcity, urbanization and human resources will have an impact on the management of a waqf institution. These problems are problems faced by society, especially Muslims so that waqf institutions as part of the assets of Muslims need to consider these factors to improve the quality of waqf strategic management for the prevention of climate change and human resource problems. In addition, the management of waqf management that is adaptive to these sustainability factors can minimize the risks that occur in waqf management.

Thus, waqf management will fully focus on maximizing promotion-education efforts, improving the quality of human resources, technological innovations including access to the community. In the end, waqf management that considers ESG reporting will get long-term benefits in the form of efficiency management of energy and resources, partnership-synergy between government institutions, ESG-based good governance and ESG-based product-services and empowerment.

CONCLUSION

The ESG reporting in Indonesia so far has been developed by the business industry, but it is still not optimal because only approximately 15% of these companies implement it in a structured manner with comprehensive guidelines and guidebooks. The rest do not yet have adequate mechanisms. The ESG concept is also relevant to be applied in philanthropic institutions such as waqf institutions in Indonesia because it is in line with maqashid sharia which mandates transparency and responsibility not only to the community, but also to the surrounding environment to realize modern organizational governance. This research recommends waqf observers and encourages researchers to develop the results of this research by initiating further studies that empirically examine the implementation of ESG Reporting to be applied in waqf institutions. Further research will encourage the presence of the need for a set of rules and regulations that mandate and provide a conducive situation for the development of ESG reporting for waqf institutions in Indonesia issued by the ministry of religion and related ministries/agencies. In addition, specific guidelines or guidelines for ESG-based sustainable reporting are needed for waqf institutions in Indonesia.

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