

Analysis of Operational Risk Management Based on the Waqf Core Principles Approach: A Case Study of Quran Waqf Board Solo

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ABSTRACT

Qur'anic waqf, as a form of social and spiritual philanthropy, plays a vital role in supporting religious literacy and social welfare. However, its operational management faces significant challenges, including distribution errors, lack of transparency, and maintaining public trust, which can hinder its effectiveness in serving beneficiaries. This study examines the application of the Waqf Core Principles (WCP) framework in managing operational risks at the Solo Qur'anic Waqf Board (BWA). Employing a descriptive qualitative approach, this research collects data through direct observations and in-depth interviews with the branch manager of BWA Solo. The findings indicate that BWA Solo has successfully implemented key WCP principles, particularly in ensuring financial transparency, accountability, and equitable waqf distribution. Nevertheless, challenges persist, including inconsistencies in risk management and potential mismanagement. Moreover, the increasing complexity of waqf operations, driven by digitalization, necessitates continuous improvements in governance and security measures. This study highlights the crucial role of WCP in strengthening the operational efficiency and credibility of waqf institutions. The research also suggests enhancing risk mitigation strategies by leveraging technology, such as Artificial Intelligence (AI), to improve monitoring and reporting mechanisms. By addressing these challenges, waqf institutions can enhance their sustainability and societal impact, fostering greater trust and participation in waqf-based initiatives.

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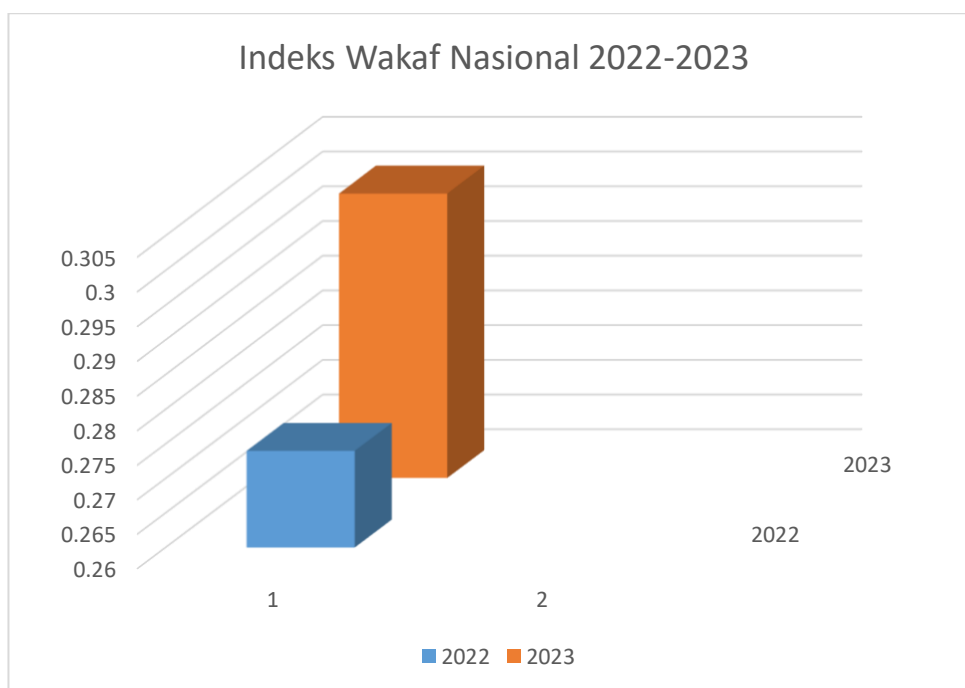
1. Introduction

Waqf is a form of social finance instrument in Islam that plays a significant role in supporting social and economic progress among Muslim (Ulhusna et al., 2024). The government and waqf institutions in Indonesia have long recognized the potential of waqf as a significant source of social funds, especially as Indonesia is listed as the country with the largest Muslim population in the world (Qolbi, 2021). If managed effectively, waqf has the capacity to improve the welfare of

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the people on a broad scale (Rasyidi et al., 2024). The trend of waqf assets in Indonesia continues to grow every year, going beyond physical property such as land and buildings, and includes productive assets that can be used for the welfare of society (Sabdo & Fajar, 2023). As the volume and complexity of waqf assets increases, new challenges emerge in maintaining the quality of management and building and maintaining public trust in waqf institutions.

The role of the Indonesian Waqf Board (BWI) in overseeing national waqf management has resulted in positive achievements in recent years. According to BWI data, Indonesia's National Waqf Index (IWN) experienced a significant increase, from 0.274 in 2022 to 0.301 in 2023, with an increase in category from "Fair" to "Good." This 9.85% increase reflects improvements in various aspects, ranging from regulation to the efficiency of waqf institutions, as well as demonstrating increased public awareness of the importance of waqf's contribution to supporting socio-economic welfare (BWI, 2024). A total of eight provinces, including Aceh and Central Java, achieved the "Very Good" category in waqf management in 2023, an increase of 60% compared to the previous year. A bar chart of the latest IWN results is presented below.



Source: National Waqf Roadmap 2024 – 2029

Nonetheless, the realization of waqf potential in Indonesia still faces significant challenges, particularly related to the suboptimal management of operational risks in ensuring the sustainability and public trust in waqf institutions.

One of the fastest growing forms of waqf is Qur'anic waqf (Amalia, 2020). This form of waqf allows people to donate to provide Al-Qur'an which is then distributed to Muslim, to support the spread and increase literacy of the Al-Qur'an. The Al-Qur'an Waqf Board (BWA) is an institution that is active in managing this waqf, providing convenience for the public to donate and distribute the Al-Qur'an to various regions in Indonesia. However, operational challenges in managing this type of waqf often arise. In 2022, for example, there was a printing error in the Al-Qur'an distributed by BWA, where on page 294 there was a writing error in verse 8 of Surah Al-Kahf,

which caused a polemic in the community. This incident reflects operational risks that need to be managed carefully so that the quality of the products distributed is maintained (Khoeron, 2023).

Risk management is important for waqf institutions, especially to maintain public trust and program sustainability. *Waqf Core Principles*, as guidelines for risk governance in waqf institutions, provide a framework that focuses on governance, protection of waqf assets, and compliance with sharia principles. These principles provide guidelines for waqf institutions in managing operational risks as a whole, so that they can achieve social goals while maintaining service quality.

Several previous studies, such as those conducted by Neng Wiwi et al. (2024) revealed that BWA Bekasi Branch had implemented operational risk and sharia compliance based on *Waqf Core Principles* (WCP) quite well. On the other hand, research by Muhammad Iskandar et al. (2020) and Agil et al. (2023) that risk management is an essential element in maintaining the sustainability of the waqf program, which can minimize losses and ensure that waqf assets remain productive and have a long-term impact on society.

Based on previous research, this research focuses on the application of *Waqf Core Principles* (WCP) in managing operational risk at BWA Solo. The reason for choosing the research object at BWA is because this institution is not only active in distributing Al-Qur'an waqf to areas that have difficulty accessing it, but has also adopted digital technology in its waqf operations. This makes BWA Solo a relevant case study for analyzing the implementation of *Waqf Core Principles* in the context of waqf digitalization. Apart from that, BWA Solo has not been researched much before, so this research is expected to contribute new insights in the development of studies on waqf management, especially in terms of implementing risk-oriented core principles and sharia compliance in a more holistic and applicable manner.

2. Research Method

This research adopts a qualitative approach with a descriptive design, which aims to explore and analyze the operational aspects of waqf agency practices based on the core principles of WCP waqf. BWA Solo was chosen as the research object because it is considered representative of waqf practices and management in the Solo area and its surroundings. In collecting data, this research utilizes direct observation method as well as interview as the main technique with the *branch manager* of BWA Solo. The data analysis process is conducted through stages such as data collection, data reduction, data presentation, and finally conclusion drawing. All of these stages are organized in a flow model that illustrates the flow of the analysis process.

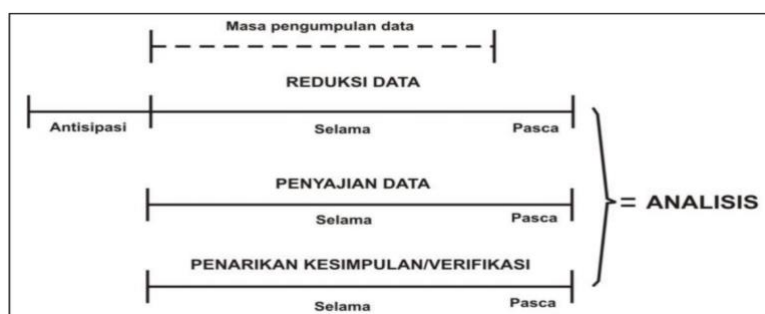


Figure : Elements of Data Analysis : Flow Model

3. Result and Discussion

Implementation of Waqf Core Principles at BWA Solo

The Qur'anic Waqf Board (BWA) Solo focuses on distributing Qur'anic waqf in Indonesia and seeks to implement governance guidelines in accordance with the *Waqf Core Principles* (WCP). This study evaluates the extent to which BWA Solo implements these principles, particularly in managing operational risks related to the collection, distribution, and printing of Qur'ans. In waqf management, the implementation of WCP is important to ensure better accountability and transparency, especially in the face of challenges such as misappropriation of funds and distribution errors (Aryana, 2022). Therefore, this study highlights three main aspects that become the focus of the implementation of this principle, namely the execution of waqf programs, the use of information technology (IT), and the management of potential fraud and other risks.

In executing the waqf program, BWA Solo has attempted to apply the principles of transparency and accountability to increase the effectiveness of waqf distribution. This is in line with Aryanas research (2022), which shows that the implementation of WCP and PSAK 112 can increase the accountability of waqf institutions and build public trust in their management. However, in practice, challenges such as delays in distribution and lack of evaluation of the effectiveness of distribution are still an obstacle. Therefore, there is a need for a more systematic monitoring system to ensure that waqf funds are channeled appropriately and equitably.

The use of IT in waqf management is also an important aspect in the implementation of WCP in BWA Solo. According to Anggraini et al. (2024), the utilization of digital technology, such as online platforms and blockchain, can increase efficiency, transparency, and accountability in the management of waqf funds. In BWA Solo, a digital system has been implemented in the fundraising and distribution process of Qur'an waqf, allowing waqifs to monitor the status of their donations directly. Nevertheless, cybersecurity risks are still a challenge that needs to be considered, especially regarding the protection of waqif data and the potential misuse of the system. Therefore, strengthening IT security systems is a strategic step that needs to be implemented to ensure the integrity and credibility of waqf institutions in the era of digitalization.

In addition, operational risk management and fraud prevention are also major concerns in implementing WCP at BWA Solo. The study of Salsabila et al. (2023) revealed that the use of blockchain technology can be a solution to increase transparency in waqf transactions and minimize the potential for misuse of funds. In practice, BWA Solo has implemented various supervisory mechanisms to ensure that waqf funds are used in accordance with the stated objectives. However, there are still some challenges, such as cases of discrepancies in the amount of transfers made by the waqif, which, although not classified as fraud, still require a stricter verification system. Thus, strengthening supervisory mechanisms and improving accountability systems are important steps to ensure more professional and trustworthy waqf management.

Waqf Program Execution

The execution of the waqf program in BWA Solo begins with the process of collecting waqf funds. This process involves waqifs donating a certain amount of money to print Qur'ans, which are then distributed to various areas in need. Every donation received will receive a receipt, either

directly (offline) or online through the system on BWA's official website. This process reflects the accountability and transparency aspects in Waqf Core Principle series 3 (WCP-3) related to waqf financial management. This is in line with the research of Pratama et al. (2025)), which shows that the application of transparency and accountability principles in waqf institutions can increase waqif trust and the effectiveness of fund management.

On the other hand, the Qur'an distribution conducted by BWA Solo has gone through a location survey to ensure targeted distribution, in accordance with the principle of operational efficiency in WCP-4. A study by Maisyarah & Hadi (2024) shows that the use of technology in waqf distribution can increase efficiency and minimize the risk of misdirection and misuse of funds. Nonetheless, operational challenges such as limited access to remote areas and logistical errors are still obstacles that need to be addressed through a stricter monitoring system.

Use of Information Technology (IT)

BWA Solo utilizes information technology to facilitate the process of donation and distribution of Al-Qur'an. Wakif can check the status of his donation through the BWA website which is integrated with the online payment system, reflecting the application of Waqf Core Principles (WCP) related to the use of technology to improve transparency, accountability, and operational efficiency. This is in line with research conducted by Aryana & Yuliafitri (2023) , which confirms that digitalization in the waqf system is able to improve management efficiency and public trust in the management of waqf funds.

In addition, the use of technology in waqf has also been studied by Bayu & Pamungkas (2024) who found that the integration of digital financial systems with waqf platforms can accelerate the distribution of funds and increase public involvement in waqf. So far, BWA Solo has not experienced any hacking incidents on its social media accounts. However, it is important for this institution to continue to improve its security system to protect waqif data and maintain public trust, as suggested by those who state that digitalization in Islamic philanthropy brings cybersecurity challenges that need to be addressed with strict data protection policies.

Fraud Risk Management

An important part of managing operational risk at waqf institutions is fraud prevention. BWA Solo once faced a situation where the *wakif* transferred money with a nominal amount that did not match the previously promised amount. Event though this is not considered an act of fraud because waqf is carried out on the basis of sincerity, BWA still needs to improve the monitoring and clarification system for every transaction that occurs. Implementation of the WCP-5 principles which emphasize the protection of the rights of *wakifs* and beneficiaries from dishonest acts requires a strong management system to ensure waqf transactions are carried out with transparency and there is no potential for fraud. Therefore, *nazir* realizes the importance of having an appropriate operational and sharia compliance risk management process to minimize the potential for fraudulent practices, anticipate system disruptions and other potential disturbances, so as to ensure the security and integrity of waqf management (Iskandar et al., 2020).

Operation Risk Management and Sharia Compliance Challenges

Nazir has an understanding that the waqf institution he leads has implemented an effective risk management process to reduce the risk of fraud, overcome system disruptions, and anticipate other potential disruptions, thereby ensuring operational and sharia compliance (Iskandar et al., 2020). BWA Solo has made great efforts to ensure compliance with sharia principles in every aspect of its operations. Management starts from collection to distribution which is carried out based on the principles of sincerity, justice and sustainability which are in line with sharia rules. Every operational stage, including financial recording, survey of beneficiary locations, and the Al-Qur'an distribution process, has followed the standards set by the *Waqf Core Principles* (WCP). This reflects BWA Solo's commitment to transparency and accountability in accordance with sharia.

BWA Solo has also received positive recognition for its efforts to fulfill sharia compliance. For example, in terms of financial management, all waqf fund transactions are managed through a clear system, thereby minimizing the potential for misuse. The distribution process also ensures that the Qur'an is distributed to recipients who really need it based on the results of surveys and in-depth studies.

However, there remains room to improve operational efficiency and risk governance. For example, in operational risk management, there needs to be a stronger strategy to deal with potential logistical errors or other technical obstacles. Although overall BWA Solo has implemented sharia principles well, improvements are continuously made to ensure that any potential risks can be minimized without compromising Sharia aspects. This risk is a risk related to fraud, system failure and other disturbances which generally originate from internal waqf institutions (Sarasi et al., 2022).

BWA Solo's success in complying with sharia principles gives more trust to the *wakif* and the wider community, thereby encouraging greater participation in the productive waqf programs it manages. With a continuous commitment to risk management and sharia, BWA Solo is able to become an inspiring example of a waqf institution in Indonesia. Below is a table of operational indicator analysis guidelines.

Table 1. Operational Risk Indicator Analysis Guidelines

Indicator	Guidelines	Research Analysis on the Waqf Board Solo Qur'an	Likelihood of Occurrence (1-5)	Impact (1-5)	Risk Score	Risk Caategory
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Collection of Waqf Funds	Principles of transparency and accountability (WCP-3).	The process of collecting waqf funds is carried out transparently through online and offline systems, but the main challenge is maintaining the trust of the <i>wakif</i> .	3	3	9	Medium
Distribution Al-Qur'an	Operational efficiency and targeted distribution (WCP-4).	Distribution is carried out based on location surveys, but there is still a risk of logistical errors and distribution that is not on target.	4	4	16	High
Use of Information Technology (TI)	Technology integration to increase transparency and operational efficiency.	BWA Solo uses an online system to monitor donations, but needs to strengthen data security to protect against cyber threats.	3	4	12	Medium

Fraud Prevention	Protection of the rights of <i>wakif</i> and beneficiaries (WCP-5).	Supervision is carried out to ensure transparent transactions. Cases of the transfer amounts that differ from promises are not considered fraud, but need a better clarification system.	2	3	6	Low
Sharia Compliance	Financial and operational management according to sharia principles.	The entire waqf management process, including finance and distribution, follows sharia principles, but operational efficiency still needs to be improved.	2	3	6	Low
Logistics Risk Management	Strategies to minimize delivery errors and technical issue.	BWA Solo already has a good logistics process in place, but technical constraints and logistics errors remain a potential challenge that needs to be addressed.	4	4	16	High

In the above operational risk analysis, an assessment is made based on a scale of 1-5 for risk likelihood and impact. The risk score is calculated by multiplying the two values and categorized as low (1-8), medium (9-12), or high (13-25) risk.

Qur'an distribution and logistics risk management had the highest score of 16 (high category). This indicates that the operational risks in both aspects are very significant, especially in ensuring targeted distribution and overcoming logistical errors. These risks require high priority in mitigation as they can affect public trust as well as the success of the waqf program.

The use of information technology has a score of 12 (medium category). This risk relates to the data security and integrity of the online system used by BWA Solo. Although no significant security incidents have occurred so far, the protection of wakif data remains a priority to prevent cyber threats and maintain public trust.

Waqf fund collection scored 9 (medium category). Although the process is transparent, the main challenge is to maintain the waqif's trust in the use of the collected funds. Improved communication and more detailed reporting are required to manage this risk.

Risks related to fraud prevention and sharia compliance scored 6 (low category). BWA Solo has implemented fund management and operational systems that are in line with sharia principles, and ensures every transaction is conducted transparently. However, periodic evaluation of systems and procedures remains important to maintain integrity and improve efficiency.

Overall, this analysis shows that the highest risks are in distribution and logistics, which require more attention in operational management, while other aspects show more manageable risks with continuous improvement efforts.

4. Conclusion And Suggestions

This study analyzes the application of *Waqf Core Principles* (WCP) in operational risk management at the Al-Quran Waqf Board (BWA) Solo. The results show that BWA Solo has implemented the basic principles of WCP well, such as transparency, accountability, and protection of waqif, which are important foundations in the governance of waqf institutions. On the other hand, operational risk management in BWA Solo has also utilized digital technology to increase efficiency and reduce potential risks.

However, this study also found a need for improvement in more comprehensive risk reporting and a more integrated evaluation mechanism. The current risk management has not been able to fully anticipate the dynamic changes that occur in the field. These findings underscore the importance of developing a more innovative and technology-based risk evaluation system, as well as strengthening the capacity of human resources in managing potential operational risks that may arise.

One of the main recommendations of this study is the need for the development of a more sophisticated risk evaluation system, utilizing the latest technology such as *Artificial Intelligence* (AI), as well as increased training of human resources in BWA Solo on risk management and WCP implementation. BWA Solo is also advised to collaborate with other waqf institutions at the international level, to adopt best practices in risk management.

Overall, the findings of this study can contribute a significant paradigm to the development of waqf institution governance in Indonesia, as well as provide a basis for further in-depth studies on the integration of sharia principles and technology in the management of waqf institutions. Suggestions for future researchers are to further explore the utilization of technology such as *Artificial Intelligence* (AI) in managing the operational risks of waqf institutions. In addition, further research can focus on strengthening the capacity of human resources in risk management and WCP implementation. Collaboration between waqf institutions should also be considered to improve the management and sustainability of waqf in Indonesia.

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