



AN ANALYSIS OF CASH WAQF LINKED SUKUK FOR SOCIALLY IMPACTFUL SUSTAINABLE PROJECTS IN INDONESIA

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Abstract

Sukuk is crowned as one of the most important instruments for raising funds, be it at the government of corporate level. In Indonesia, sukuk was first introduced in 2002. Sukuk market development was said to have contributed to the increase of GDP in Indonesia due to the improved productivity facilitated by better access to funds. Of late, a number of innovative Islamic finance products in line with Shariah principles had been introduced to the market with the aim to fulfil the diversified needs in the society. The idea is to combine two or more Islamic finance products in one for a better outcome. The case of Cash Waqf Linked Sukuk (CWLS) which are Islamic bonds (“Sukuk”) linked to an endowment (“Waqf”), is part of the development and innovation efforts in Islamic finance and social investment in Indonesia. When an important instrument like sukuk is coupled with a powerful Islamic social finance instrument, i.e., waqf, the combination can potentially be very impactful. Sukuk is an instrument for mobilizing funds, while waqf has the capacity to bridge charity and philanthropy with income generation and productive economic activities. Using a qualitative research based on explanatory and descriptive method, this paper analyses the practice of CWLS and its potential for socially impactful and sustainable projects in Indonesia, and to identify the benefits, opportunities, costs and risks of CWLS. The study found that CWLS can significantly contribute to social impact, as well as facilitate many sustainable development programs including government projects, education and healthcare initiatives and others. CWLS is believed to be a highly potential instrument with a positive impact on the society in Indonesia because of its benefits and opportunities are more considerable than its risks and costs.

Keywords: Social Impact, Cash Waqf Linked Sukuk, Sustainable Development

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1. Introduction

Islamic finance has flourished in many OIC member countries. In fact, Asia is considered as one of the leaders of Islamic finance. Indonesia is one of the countries in Asia that has jumped on the bandwagon of Islamic finance. In relation to sukuk, it was first introduced in Indonesia since 2002, with the issuance of corporate sukuk by PT Indosat Tbk which was OS Mudharabah Indosat (Mitsaliyandito, Arundina, & Kasri, 2017). Mitsaliyandito et al. (2017) found that sukuk market development contributed to the increase of GDP in Indonesia due to the improved productivity facilitated by better access to funds.

Of late, a number of innovative Islamic finance products in line with Shariah principles had been introduced to the market with the aim to fulfil the diversified needs in the society. The idea is to combine two Islamic finance products in one for a better outcome. For instance, is the case of Cash Waqf Linked Sukuk (CWLS) which are Islamic bonds (Sukuk) linked to an endowment (Waqf). CWLS is part of the development and innovation efforts in Islamic finance and social investment in Indonesia. It is used to facilitate the waqif (donor) to contribute their cash in a secure financial instrument, i.e., Sukuk, to fund various social projects.

The idea about CWLS was officially introduced by the Indonesian Ministry of Finance during an International Conference in Bali in October 2018, and the first CWLS, known as “CWLS-SW001”, was launched on 10 March 2020 with the total nominal value of more than IDR 50 billion (the equivalent of approximately US\$ 3.5 million). The proceeds from CWLS-SW001 were used for health facilities and healthcare for poor people in a hospital located in Serang, Banten Province. The tenor is 5 (five) years with a return of 5% (five percent) per year (Karim, 2020). The return is generated from investment

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of the waqf fund into sovereign sukuk issued by the Indonesian government. This sukuk is guaranteed by the government, where the proceeds are used to fund government projects under the purview of Ministry of Finance. The proceeds generated from the sukuk will be paid to Badan Wakaf Indonesia (BWI), who acts as the mutawalli of the waqf fund and profit from the CWLS project will be utilised for the needy in the society

This paper analyses CWLS practice for economically sustainable projects and socially impactful initiatives in Indonesia. Following this, this paper also identifies the benefits, opportunities, costs and risks of CWLS. The study was motivated by the fact that sukuk is crowned as one of the most important instruments for raising funds, be it at the government or corporate level. When an important instrument like sukuk is coupled with a powerful Islamic social finance instrument, i.e., waqf, the combination can potentially be very impactful.

Indeed, the integration of sukuk and waqf is an interesting innovation in Islamic finance. Sukuk has the potential as an instrument for mobilizing funds, while waqf has the capacity to bridge charity and philanthropy with income generation and productive financial activities. Therefore, linking sukuk and waqf is a wonderful innovation that provides low-cost financing to run economically sustainable projects and socially impactful initiatives. The combination also offers great opportunities for the achievement of some if not most of the sustainable development goals (SDGs) prescribed by the United Nations (UN). CWLS has the potential to be an effective instrument to reduce poverty and overcome inequality by empowering low-income people, opening business opportunities, and facilitating access to basic needs of the community.

2. Literature Review

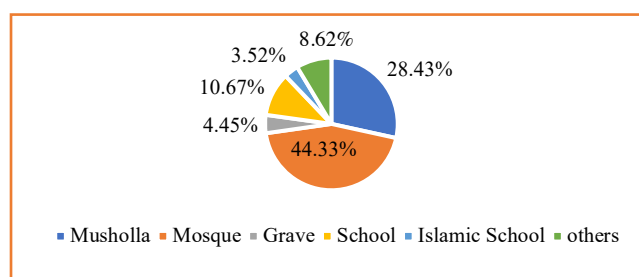
2.1. Waqf and Cash Waqf

Waqf is one of the achievements in the Muslim society even the specific term *Waqf* was not mentioned in Al-Quran, but the good deeds to help needy people are encouraged by the Quran and Rasulullah S.A.W in his sunnah with the intention of have blessings from Allah. *Waqf* contributes to many things that benefit the ummah including mosques, schools, old folk homes and hospitals. A frequently pointed out hadith about waqf is when Rasulullah S.A.W responded to Umar's request to give his land in Khaybar to charity, by giving the following guidance: "Give it in charity with its land and trees on the condition that the land and trees will neither be sold nor given as a present, nor granted, but the fruits are to be spent in charity." So Umar gave it in charity, and it was for Allah's cause, to free the slaves, for the poor, guests, travellers and kinsmen. The person acting as its administrator could eat from it reasonably and fairly, and could let a friend of his eat from it, provided they do not become rich by the waqf (Elkhatib, 2016).

A valid *waqf* have five elements or pillars namely: *sighah*, *waqif*, *mawquf*, *mawquf alaih*, and *nazir* and every element must fulfil certain conditions in order for a *waqf* to be considered valid. First, *sighah* or the contractual expression is when the *waqif* expressed his intention to make *waqf*, using words such as *waqafu* or *habastu* or *sabbaltu*. Second, the *waqif* or donor must be an adult, sane and capable of declaring his or her property to be waqf, otherwise it would be void. It is important for the *waqif* to be not overwhelmed by debt that could lead him/her to bankruptcy, and the decision to make *waqf* is made voluntarily and not being force on him/her. Next, the *mawquf* or *waqf* object must be something valuable, useful and not harmful. *Mawquf* assets can be categorised into two classes, immovable and movable. *Mawquf alaih* are the beneficiaries who will benefit from the *waqf* property. Lastly, *nazir* is a person or body appointed to manage the *waqf* and is expected to possess good character and competency to fulfil his duties as the *waqf* trustee and administrator (N. A. Ghazali, Sipan, Raji, & Mohammad, 2019). Some literature differentiate between *nazir* and *mutawalli* where *mutawalli* is usually among family or relatives of the *waqif* while *nazir* is usually appointed by the government or state authority (A. Ghazali, Sipan, Abas, & Raji, 2019).

Cash *waqf* is a type of movable *waqf*. Like other *waqf*, the purpose of cash *waqf* is to provide service to mankind by establishing a *waqf* using money. Historically, cash *waqf* was widely used during the Ottoman Empire since the end of 16th century. Cash *waqf* is normally evidenced by certificates of different denominations to raise money for the planned projects. The certificates would be subscribed by individuals or institutions who are interested make *waqf* to fund the proposed projects. Cash *waqf* can be further classified into two categories: direct cash *waqf* and indirect cash *waqf*. Direct cash *waqf* is where the *waqif* or founders give their cash to *waqf* bodies or *mutawalli*, who will proceed to directly develop any *waqf* projects or properties using the money. In indirect cash *waqf*, the *waqif* or founders will give their cash *waqf* to the *mutawalli* who will invest the cash *waqf* fund and when there is revenue generated, it will be used for the beneficiaries and to pay for management expenses based on an agreed ratio (Fikry, Hadary, & Muneeza, 2018).

2.2. Nature and Development of Waqf in Indonesia: A Statistical Analysis



Source: (Kementerian Agama, 2020)
Figure 2.1 The Total Use of Waqf Land in Indonesia

The above chart shows the total use of *Waqf* land in Indonesia, which is in 387,859 locations with a total of 51,948.84 Ha and 60.71% of the land has been certified. It should be noted that mosques represent a large percentage at 44.3% compared to Islamic schools which is the least popular choice for waqf at 3.52% only. Besides mosques, musholla is also very popular at 28.43% of total *waqf* land in Indonesia. The third most popular is school at 10.67%. Others have 8.62%, followed by graveyard at 4.45% out of the total *waqf* land.

There are a number of literatures regarding the development of cash *waqf* in Indonesia. Siswanto and Rosdiana, (2016) analysed the sustainability of cash *waqf* in Indonesia and the results showed that cash *waqf* needs support from many parties in order to maintain its sustainability such as, regulator, private institutions and universities. Rusydiana and Devi (2018) mentioned that, aspects like human resource, trust, system, and *Shari'ah* are considered the main issues in managing cash *waqf* in Indonesia. Huda et.al (2017) shared some opinion, adding that *nazir's* lack of professionalism, lack of socialization of *waqf* regulations and *lack of awareness of waqif* are major issues in the development of *waqf* in Indonesia. Hasanah (2014) in her paper argued that with the presence of Indonesian Waqf Board (BWI) who is in charge of promoting and developing *waqf* in Indonesia, it is expected that *waqf* can play a better role in facilitating community empowerment and improve the welfare of people.

2.3. Waqf Governing Institutions in Indonesia (Indonesian Waqf Board)

Badan Wakaf Indonesia (BWI) or Indonesian Waqf Board is an independent body which was formed under Indonesian Act no 41/2004. This body was formed for the purpose of developing and promoting waqf development in Indonesia towards improved social services and better economic outcome. It was also formed to develop the management skill of *nazir*, so that waqf assets could be better managed and be more productive to provide greater benefits to the community. BWI is located in the capital city and it has its representative in each province or district or city in Indonesia (Badan Wakaf Indonesia, 2019).

In addition to that, it is believed that BWI's performance is driven by its mission: "To create an independent community trustee board, with the ability and integrity to develop national and international relations" and its vision of "Making Indonesian Waqf Board a professional institution capable of realizing the economic potential and benefits of waqf property for the benefit of worship and community empowerment. Furthermore, BWI designs specific job objectives in order to develop *nazir* management skills, including: (1) To provide training for *mutawalli* in managing and developing *waqf* assets and property, (2) To terminate and replace *mutawalli*, (3) To manage and develop *waqf* at national and international scale, (4) To provide consent and / or consent to changes in the status and status of the *waqf* property, (5) To provide conversion rate (for *waqf* property), (6) To provide advice to the government in drafting policies related to personnel.

Lastly, there are several strategies that play a significant role in the development of BWI which are; (a) Increase the competence and network of Indonesian *waqf* bodies, both national and international, (b) Create rules and policies in the field of communication, (c) Increase people's awareness and willingness to lead productive lives, (d) Enhance *mutawalli* professionalism and trustworthiness in the management and development of *waqf* property, (e) Coordinate and build the entire *mutawalli waqf* network, (f) Order the administration of the *waqf* property, (g) Monitor and protect *waqf* property, (h) Gather and develop national and international *waqf* assets.

2.4. National Policy and Issues on Waqf Influencing Indonesian Society and Its Development

The law regarding *waqf* in Indonesia was introduced way before the independence. *Waqf* regulation in Indonesia existed since the enactment of Act Number 5 of 1960 regarding the Basic Regulation of Agrarian Principles or also called as the Act of Agrarian Principles, publicized in the State Gazette Number 104 of 1960 (Rosadi, Effendi, & Busro, 2018). However, the regulations were simple and did not cover all aspects of the endowment. After the reform era, Law Number 41 of 2004 concerning *waqf* was introduced. This law marks the beginning of the beautiful story of Indonesian waqf. Basically, *waqf* laws and regulations in Indonesia are based on *Shari'ah*. This is reflected in Article 2 of Law Number 41 of 2004 concerning endowments which states, "Endowments are valid if implemented according to *Sharia*." (Source BWI). To some extent the Law No. 41/2004 on *waqf* has encouraged the government and civil society to manage *waqf* assets productively. It consists of 71 articles that are drafted within 10 chapters (Nizar, 2019). Government has made its effort to revitalize the national *waqf* system by ratifying Waqf Act number 41 of 2004 (Ismal, Muljawan, Chalid, Kashoogie, & Sastroswito, 2015); (a) Government Regulation no 42/2006 concerning the implementation of Indonesian Act no 41/2004, (b) Government Regulation no 25/2018 on the changes to the government regulation no 42/2006, (c) Regulation of Minister of Religion no 4/2009 concerning cash waqf administration, (d) Decrees of the Minister of Religion concerning the Establishment of Sharia Financial Institutions receiving cash Waqf (LKS-PWU).

The Indonesian *Waqf* Law No.41 of 2004 is to empower *waqf* as a religious instrument that has economic potential and benefits, as well as promotes acts of worship and public welfare. The Law also enhanced the regulation of waqf in Indonesia by covering the implementation of *waqf* involving movable objects, whether in form of money, shares, securities, intellectual property, precious metals and others. In addition, the Law also contains provisions addressing situations where waqf properties are not professionally managed including cases of abandonment or unlawful transfer to third parties. Problems happen when some of the *nazir* neglect the management of waqf properties. This is made worse by the society's lack of awareness, with little or no knowledge about *waqf*. Thus, the Law is meant to reinforce the professionalism of *nazir*,

through BWI., BWI will provide guidelines for the nazir in term of professional conduct, as well as formulate policies for waqf and oversee the development of waqf in Indonesia.

Rosadi et al. (2018) highlighted three criminal provisions related to *waqf* property management violations which are: (1) Those who deliberately pledge, grant, sell, inherit, and other forms of rights transfer without permission, (2) Those who deliberately change the designation of *waqf* property without permission, and (3) Those who deliberately use or take the facilities derived from *waqf* revenue beyond the prescribed amount.

2.5. Sukuk Definition

In laymen term, *Sukuk* can be understood as a Shariah compliant bond. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines sukuk as certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity (AAOIFI, 2019). Alam et.al (2013) suggested that Sukuk is one of the significant Shariah compliant financial instruments which provide an alternative source of financing especially for corporates and sovereign entities compared to the conventional bonds.

In the literature, Sukuk is considered as a vital tool and a key instrument for the development of Islamic financial industry (Wilson, 2008). Besides that, the Sukuk market is also a means to expand the world's growing pool of Shari'ah-compliant capital that can be used to promote sustainable and equitable economic and social development. As of 2014, the global sukuk market was worth more than US\$600 billion, and it continues to drive the growth and development of Islamic finance (International Islamic Financial Market, 2014). In addition, as indicated by (S&P Global Ratings, 2020), Sukuk was expected to hit \$115 billion in 2019, with an average oil price of \$60 per barrel and no further rise in geopolitical risk. Moreover, Indonesia, Turkey, Saudi Arabia and Qatar are considered to be leading countries in strong market results in the first half of 2019. Meanwhile in 2020, sukuk issuance declined by 27 per cent in the first half of this year but is still projected to hit some \$100 billion in 2020, which is around 40 per cent lower in 2019 (S&P Global Ratings, 2021).

2.6. Regulatory Support for Sukuk and Waqf Development in Indonesia, Especially on Cash Waqf Linked Sukuk

According to Suminto (2017), there is a need to develop a legal and regulatory framework that recognizes and facilitates the issuance of Sukuk when there is a desire to encourage the development of sukuk in a country, particularly in jurisdictions where Islamic principles are not enshrined in the national law. With enabling legal basis and law on sukuk, an orderly development of sukuk market is expected, with adequate protection for investors, and other stakeholders. A strong legal and regulatory framework, as well other necessary infrastructure are key success factors for sukuk development, especially sovereign sukuk.

Apart from the law and regulations, Islamic legal verdicts (fatwa) are also important to provide the Islamic legal basis for sukuk issuance in Indonesia. Below is the chronology of fatwa that are relevant as legal basis for sukuk in Indonesia.

Table 2.1 Fatwa as the Islamic Legal Basis for Sukuk in Indonesia

Year	Islamic Legal Basis for Sukuk
2001	<ul style="list-style-type: none"> • Fatwa No: 20/DSN- MUI/IV/2001. Halal Effort Issuer
2002	<ul style="list-style-type: none"> • Fatwa DSN-MUI No. 32/DSN- MUI/IX/2002. Syaria Bond Issuance Contract • Fatwa No: 33/DSN-MUI/IX/2002. Mudharabah: Syaria Obligation
2007	<ul style="list-style-type: none"> • Fatwa No: 59/DSN- MUI/V/2007. Obligation Syariah Mudharabah Konversi
2008	<ul style="list-style-type: none"> • Regulation No. 19 Year 2008 of sovereign sukuk. • Fatwa No: 65/DSN- MUI/III/2008 Sharia Pre-emptive Rights (HMETD Syariah) • Fatwa No: 66/DSN- MUI/III/2008 Warrants Syariah. • Fatwa No 69/DSN-MUI/VI/2008 Syaria Compliant Securities. • Fatwa No: 70/DSN-MUI/VI/2008 of issuing sharia compliant securities. • Fatwa No: 71/DSN-MUI/VI/2008 Sale and Lease Back. • Fatwa No: 72/DSN-MUI/VI/2008 Syaria compliant sovereign sukuk Ijarah Sale and Lease Back. • Fatwa No: 69/DSN-MUI/VI/2008 issuing sharia compliant securities sovereign • Fatwa No: 70/DSN-MUI/VI/2008 issuing sharia compliant securities sovereign • Fatwa No: 71/DSN-MUI/VI/2008 Sale and Lease Back. • Fatwa No: 72/DSN-MUI/VI/2008 sharia compliant securities Negara Ijarah Sale and Lease Back
2010	<ul style="list-style-type: none"> • Fatwa Number: 76/DSN- MUI/VI/2010. SBSN Ijarah Asset to Be Leased.
2011	<ul style="list-style-type: none"> • Fatwa Number: 80/DSN- MUI/III/2011. Application of Sharia Principles in Equity Securities Trading Mechanisms in the Regular Stock Exchange Market.

In relation to waqf, the first regulation was Law no. 05 of 1960 concerning agrarian principles. Seventeen later, a government regulation was passed to facilitate the implementation of the Law of 1960, which was ratified on May 17, 1977, namely Government Regulation no. 28 of 1977 concerning waqf of property rights, known in Bahasa Indonesia as

“Ketentuan Perwakafan Tanah Milik”. Afterwards, endowments in Indonesia became more complex such that further rules in the form of laws, orders and sanctions became necessary, resulting in the promulgation of Law number 41 of 2004 on waqf. The regulation for the waqf Law is Government Regulation number 42 of 2006 (Sari Pertiwi et al., 2019). Table 2 below provides the detail chronology of legal provisions for waqf in Indonesia.

Table 2.2 Legal Provisions for Waqf in Indonesia

Year	Legal Provisions for Waqf
1977	<ul style="list-style-type: none"> • Government Regulations No. 28/ 1977; ownership of waqf • Permendagri No. 6/1977; Land Registration Procedure of Land Ownership
1978	<ul style="list-style-type: none"> • Regulations of Minister of Religion No. 1/1978 Regulations of Implementation PP No. 28/1977 of Ownership in waqf
2004	<ul style="list-style-type: none"> • Regulations No 41/ 2004 on Waqf
2006	<ul style="list-style-type: none"> • Government Regulations No 42 /2006 of implementations UU 41/2004
2008	<ul style="list-style-type: none"> • Indonesian Waqf Board Regulations No1/ 2008 of Procedure of Recommendations on Change / Exchange Request of Endowments Status. • Indonesian Waqf Board Regulations No3/ 2008 of Procedures for Registration and Substitution of mutawalli in immovable Waqf Property in the Form of Land;
2009	<ul style="list-style-type: none"> • Regulation of Minister of Religion No 4/ 2009 of Cash Waqf Administration • Regulation of Waqf Board Indonesia No1/ 2009 of Guidelines for Management and Development of Endowments in the Form of Money.
2013	<ul style="list-style-type: none"> • Regulation of Minister of Religion No 73/2013: Procedures for the Representation of immovable objects and movable objects other than cash.
2018	<ul style="list-style-type: none"> • Government Regulations No 25/ 2018 of Amendment to Government Regulation No 42 /2006

2.7. Sukuk And Waqf Development in Indonesia

Sukuk and waqf are alternative fund-raising instruments for entrepreneurs or sovereigns in accordance with Sharia. The benefits of sukuk include being a diversification of funding sources to finance infrastructure development for the state, and business expansion for the corporation. In addition, it also plays a role in the growth of the real sector (Rini, 2012). Indonesia that has substantial waqf assets can be an ideal role model to issue CWLS. Sari Pertiwi et al. (2019) suggested that there is an enormous potential for waqf, and resources such as human capital and land must be handled and utilized optimally by waqf institutions in Indonesia. With approximately 226 million citizens, Indonesia has the most Muslim populations in the world (Tambunan, 2018).

According to Nasrullah (2015), there are three factors where sukuk seemed and proved to be more reliable than bond. First, issuance of bonds has a negative impact on the position of the state budget, which results in the lack of fiscal space. Part of the proceeds of a sovereign bond issuance, known as “Surat Utang Negara” (SUN) is used to pay old debts, and then the government often makes refinancing. Meanwhile, sukuk issuance has the underlying asset where it can minimize the risk of default or the debt trap. With due respect to Nasrullah, the actual ability of the underlying asset in sukuk to mitigate default or the debt trap may still be contentious, given the not so good experience that sukuk holders had with default cases in the like of Dana Gas Sukuk or near defaults in the like of Nakheel Sukuk. Yet, having an underlying asset may arguably put the sukuk holders at a better position compared to other unsecured debtors. Second is the fiscal burden due to interest payments on the debt. This can be made worse by increasing interest rate risk. Due to fluctuation in interest rate, an increase in the rate will lead to augmented amount outstanding under the debt portfolio. Islamic bond or sukuk has an added value because there will be no extra cost of interest to be charged since profit payment to investors has already been agreed upon at the time of contract. Third, Nasrullah (2015) admitted that, basically both bonds and sukuk will face exchange rate risk which can increase fiscal burden as a result of a decline in the exchange rate, but sukuk issuance can potentially minimize the loss due to exchange rate risk because sukuk uses a Shariah compliant system such as profit sharing scheme and has underlying assets. However, it is not that clear how a profit-sharing scheme can mitigate losses resulting from exchange rate risk. Moreover, not many sukuk are structured based on profit sharing schemes, where most sukuk are still using debt-based and ijarah arrangements.

A study by Rusydiana and Devi (2018) mentioned that cash waqf will be a great help not only from the religious aspect, but also on humanitarian or public welfare grounds. Unfortunately, a lot of problems occur in managing waqf property by the mutawalli. Many of these problems are due to lack of knowledge or skills, resulting in non-productive use of waqf assets. Cash waqf, particularly when it is linked with sukuk, may be better managed because of the involvement of professional managers and patrons, prior to, during and after the issuance of the CWLS.

2.8. Prior Studies on The Importance and Significance of Cash Waqf and Sukuk

Mukhlisin & Mustafida (2019) studied on how to combine sukuk and waqf in Indonesia using Analytic Network Process (ANP) method and Benefit Opportunity Cost and Risk (BOCR) analysis. Unprofessional waqf assets management and the dispute in waqf asset ownership were identified as the top elements of cost and risk in issuing cash waqf in Indonesia. Interestingly, the research found that the benefit and opportunity outweighed the cost and risk. Specifically, waqf sukuk provides an alternative funding mechanism for the development of waqf asset. Waqf sukuk also could be a beneficial

instrument to reduce government spending in providing social facilities for the people, hence, the government would indirectly be able to reduce its debts. In addition, *waqf* sukuk could be an opportunity to further develop Islamic finance in Indonesia.

Similarly, Oubdi and Raghibi (2018) found that *waqf* sukuk could be an Islamic solution for public finance deficit. *Waqf* sukuk can be seen as the perfect sustainable financing instrument offered by Islam to help sponsor public spending. Using a narrative review, the paper by Oubdi and Raghibi found that *waqf* sukuk could be a suitable instrument to enhance the role of *waqf* and make it a common and familiar tool for Muslims who seek divine blessing and mercy. It is mainly because, *waqf* sukuk could be considered as the perfect tool to mobilize fund from Muslim communities in a regular and sustainable way, since it combines the flexibility of sukuk and the sustainability of *waqf*.

Furthermore Faiza (2019) argued that CWLS would be very viable as a funding vehicle for natural disaster recovery in Indonesia. Using a qualitative method, the study by Faiza (2019) attempts to synergize between cash *waqf* and bridging the natural disaster recovery budget deficit. The proposed model allows the authority to raise the needed fund from *waqf* placed on *sukuk*. The research revealed that CWLS should be able to cover the overall financing for remedying the damage and losses in the government-owned sector. Under the proposed scheme, *waqf* will first be used to finance post-disaster infrastructure development, structured as *waqf* sukuk. Subsequently, the yield from the productive utilization of *waqf* placed on sukuk instruments can be distributed to the *waqf* beneficiaries (*mawquf 'alaih*).

3. Methodology

Methodology refers to a collection of formal methods used in the study, including its guidelines and the method of analysis used (Igwenagu, 2016). Similarly Rajasekar et.al (2013) explained that the research approach is a systematic technique of the researcher to identify, explain and forecast the phenomenon to solve the problem. This study adopts qualitative research based on explanatory and descriptive method to analyse the cash *waqf* linked sukuk in Indonesia and to examine the benefit, opportunity, cost and risk of CWLS. According to Denzin and Lincoln (2013), qualitative research is a multi-method that requires an interpretative and naturalistic approach to its variables. In this paper, the focus is more on understanding and analysing the practice of CWLS in Indonesia and exploring the potential of its replication and expansion to other socially impactful and sustainable projects. The study relies on secondary data in the form of library research and content analysis in order to attain its research objectives.

4. Finding And Discussion

4.1. An Introduction of Cash *Waqf* Linked Sukuk model

Waqf in Indonesia is currently experiencing a very dynamic development and it is attracting a lot of interest from scholars, regulators and the society in general. BWI as the Indonesian *waqf* authority is actively introducing innovative instruments and various activities to enhance *waqf* assets. CWLS is one of the new instruments introduced by BWI with the first batch issued as Code CWLS SW-001 worth Rp100 billion. CWLS is an Islamic bond or sukuk linked to cash *waqf*. The collected *waqf* fund would be invested in sovereign sukuk issued by Indonesian Ministry of Finance. Thus, this *waqf* fund could be used for financing public expenditure such as education and health sectors.

Table 4.1 Cash *Waqf* Linked Sukuk SW001 terms and conditions

NO	Description	SW001
1	Nominal Stock Value	Rp50,849,000,000/ \$3,614,232
2	Type of SBSN	Non-Tradable
3	Contract	Wakalah
4	Yield	6.15%
5	Coupon	Fixed 5.00% (Per Year)
6	Date of Issue	10 th of March 2020
7	Due Date	10 th of March 2025
8	First Coupon Payment	10 th of April 2020
9	Next Coupon Payment	10 th of every month

CWLS SW-001 was officially launched by the Indonesian government on 10th of March 2020 based on private placement and it has nominal stock value of about Rp50,849,000,000. CWLS is a form of government commitment to support social investment and productive *waqf* development in Indonesia. Using this instrument, the government could accommodate temporary or permanent donor (*waqif*) to endow their money in a safe and productive investment instrument.

As part of CWLS mechanism, Indonesian *Waqf* Board (BWI) as a *mutawalli*, placed cash *waqf* by way of sovereign sukuk subscription via a private placement arrangement. The sukuk is for 5 years, non-tradable, and earns a yield in the form of discounts and coupons. The *sukuk* proceeds would be used for the development of *waqf* assets, namely renovation and purchase of medical devices for the retina centre at Achmad Wardi Hospital in Banten Province. As the *sukuk* was issued at a discount from the nominal value of Rp50,849,000,000, BWI as the *mutawalli* and subscriber of the sovereign sukuk needs to pay only Rp 48,306,550,000 for the *sukuk* subscription. Meanwhile, coupons are paid monthly by Ministry

of Finance to BWI to benefit the society by providing free cataract surgery services for the poor (Dhuafa) in the same hospital, with a target number of as many as 2,513 Dhuafa patients, served for 5 years. The money is also used for the provision of ambulances to reach sick patients far from the hospital. Furthermore, the waqf sukuk funds will be returned 100% to the waqf when the SW001 is due (Kemenkue, 2020).

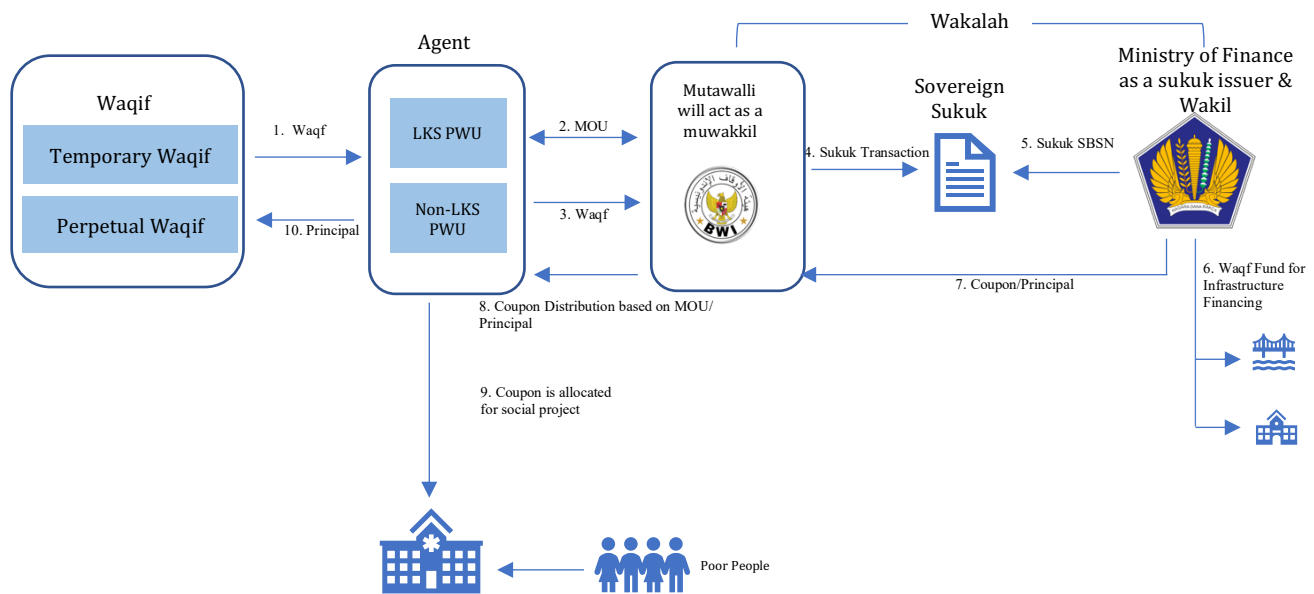


Figure 4.1 Cash Waqf Linked Sukuk Scheme

As shown in the Figure 4.1 above, under the scheme, Ministry of Finance would announce infrastructure project plans to the public and mentions project details, in order to solicit alternative sources of funding. The Ministry of Finance chose *waqf* sukuk as a source of funding and chose BWI as the *mutawalli* of this project. At the very beginning, the *waqifs* would temporarily or perpetually donate their cash *waqf* fund through Islamic banks who had been appointed by BWI as their agents. Islamic banks act as agents on behalf of BWI to collect the cash waqf and to promote the government project under this CWLS. Following this, BWI as the *mutawalli*, subscribed to sovereign sukuk issued by Ministry of Finance and Ministry of Finance consequently used the proceeds in the form of the *waqf* fund to finance the country's infrastructure project. Afterwards, MOF would pay the coupon to BWI on 10th of every month and would pay the principal back to BWI at the end of the tenure. At the same time, BWI would also distribute the coupon to its agent and the agents would simultaneously distribute the coupon to allocated social projects. Finally, the agents would return back the principal of *waqf* to temporary *Waqif* at the end of the tenure as per the agreement. The principal of permanent *waqf* will be kept by BWI and used for further *waqf* projects/purposes.

The objectives of the CWLS are to enhance the community roles in developing the country through Shariah compliant instruments and to develop the social infrastructure projects such as education facilities, health facilities, and others. Interestingly, this CWLS is not only allocated for Ahmad Wardi hospital, but will also be projected for other community welfare such as small enterprises who are benefiting from part of the coupon distributions.

4.2. Cash Waqf Linked Sukuk and It's Potential for Sustainable Projects in Indonesia

As cited in Syed Azman and Engku Ali (2019), social impact is societal and environmental changes that result from investment and activities. Social impact includes matters such as equality, livelihood, health, nutrition, poverty, security, and justice, while environmental impacts include matters such as conservation, energy use, waste, environmental health, resource depletion, and climate change. As a matter of fact, coupons earned by BWI through CWLS was allocated for Achmad Wardi Hospital. This specialist eye *waqf* hospital which is located in the Banten province is a collaboration between BWI and Dompot Dhuafa. The majority of patients are underprivileged. As reported by BWI, the number of potential beneficiaries as of August 2019, are 10,333 outpatients, with 811 cataracts surgeries. As mentioned previously, the CWLS has benefited the underprivileged patients through the provision of free cataract surgery services with the total budget of Rp19.8 billion, as well as the provision of ambulance services. The coupons generated from CWLS would also be used to build a glaucoma centre in 2020. Not only beneficial for the health sector, the CWLS revenue is also projected for other social programs such as scholarships and other charities.

Table 4.2 Achmad Wardi Hospital Budget Allocation

No	Allocation	Budget
1	Construction and Renovation	Rp1,000,000,000, -
2	Medical Equipment	Rp8,817,485,140, -
3	Non-Medical Equipment	Rp500,000,000, -
4	Ambulance	Rp543,900,000, -
5	Start Up Cost	Rp2,072,876,052, -
	Total	Rp12,934,216,192, -

It should be noted that Indonesian sovereign *sukuk* totalled to Rp118.26 Trillion with 2,939 projects since 2013 to 2020. These projects include: (a) Road and bridge constructions in 30 Provinces (Youtefa Bridge, Balang Island Bridge, Mandai Underpass); (b) Railway constructions in Java, Sumatra, Sulawesi (Manggarai-Bekasi Double Track, Cirebon-Kroya Double Track, Elevated Kualanamo-Medan); (c) Development of 456 water resources projects (dams, irrigation, ground water supply and management); (d) Hajj dormitory development and services in 74 locations; (e) Construction and development of lecture buildings in 86 universities (IPB, ITERA, ITEKA, UNSOED and PTKI); (f) Development and construction of 293 Islamic boarding schools; (g) Development and construction of 13 National Parks (Baluran, Gunung Gede Pangrango, Aketajawe-Lolobata / Halmahera, Crooked Beak Sanctuary, etc.); and (h) Construction & development of 7 national laboratories (LIPI, BSN, LAPAN). Similar government projects can potentially be funded via other series of CWLS in the future.

4.3. Analysis on Benefit, Opportunity, Cost, and Risk (BOCR) of Cash Waqf Linked Sukuk

To further drive the optimization of cash *waqf* potential in a safe, competitive and productive manner, Shariah compliant financial instruments are introduced in the form of CWLS which are guaranteed by the State. Here, BOCR analysis is used to anticipate, analyse and measure the benefits, opportunities, costs and risks within the complexity of CWLS issuances. The benefit, opportunity, cost and risk elements in this study will be elaborated as below:

4.3.1. Benefit

CWLS contains all aspects that can provide short-term benefits or advantages to the parties involved. First and foremost, CWLS may help the government to provide medical equipment needed, particularly during this Covid19 pandemic. It may also support the industry that supplies the medical equipment. CWLS does not only help with the hospital cost, but it also helps the needy get free health facilities at the hospital, provides more social and public facilities and helps reduce the government's international debt dependency. Furthermore, it is interesting to note that, CWLS donors or prospective *waqifs* are actually enjoying safe and risk-free instruments, in addition to the ability to propose projects / social activities to be carried out / financed by the *waqf* fund. Additionally, since BWI is exempted from taxation, it is able to give very competitive investment returns to the *sukuk* holders and *waqf* beneficiaries.

4.3.2. Opportunity

This part discusses any profitable opportunity in the future as a result of the issuance of CWLS as a productive financing mechanism for *waqf* assets development in Indonesia. First, the issuance of this instrument could become an alternative financing to fund the development of *waqf* assets and alternative social investment for the investors. This will simultaneously increase the type of *sukuk* instruments in Indonesia. In addition to improving the Islamic financial market in Indonesia, CWLS also offers sustainable advantage to social welfare in which *waqf* could empower the society not only for the health sector, but also other sectors like education and environment.

4.3.3. Cost

Unprofessional *waqf* asset management is perhaps the foremost aspect of cost because it may result in a short-term or even long-term loss, as well as hesitation to issue *waqf*-based *sukuk* in Indonesia. Similarly, the low rate of *waqf* literacy is also one of the challenges of *waqf* development in Indonesia. It has been reported by BWI that Indonesian Muslim's *waqf* literacy is: (a) 57.67% for basic understanding of *waqf*; (b) 37.97% for intermediate understanding of *waqf*; and (c) total of 50.48% Muslim index literacy on *Waqf* in Indonesia. In addition, credibility, transparency and accountability of *waqf* institutions also become obstacles in the development of *waqf*. These were reported to constitute 45% of the obstacles, compared to other factors such as image of the institution: 7%; accessibility: 36%; service: 7%; and others: 6% (Badan Wakaf Indonesia, 2020).

4.3.4. Risk

The dispute on *waqf* assets ownership is a main risk in this instrument. Hence, the official certificate to date must be endorsed by BWI. Other aspects of the risk in *waqf* *sukuk* issuance are: counter party default risk and financial risk (Mukhlisin & Mustafida, 2019).

Although CWLS has been issued out of Indonesia, the model and structure adopted could be a reference for another country that wishes to tap from the potent combination of cash *waqf* and *sukuk* instrument. The benefits and opportunities of CWLS seem to outweigh its costs and risks, and these are attractive aspects to be considered by parties who want to replicate the experience of CWLS. In general, CWLS has shown its ability to facilitate sustainable economic development and socially impactful projects, as well as promote Islamic social finance. This will generate awareness and interest in CWLS, which many may have not heard of before.

Moreover, this paper provides insightful information about the details of CWLS experience in Indonesia and this will benefit many stakeholders, such as the regulator, social impact investors, donors, social impact service providers as well as academicians and the industry in general. For example, the regulator might identify areas of improvement in the governance of CWLS and may want to develop law and rules to further facilitate CWLS and enhance its transparency. Potential social impact investors and donors will have better understanding of the CWLS and may be interested to participate in future issuances.

Admittedly, this paper has its own limitations in terms of data extensiveness and findings. Therefore, more studies are encouraged to seek more data in various other areas of CWLS and how it can contribute to promotion of other and more wide-ranging socially impactful and sustainable projects.

5. Conclusion

CWLS is one of the Islamic instruments aiming to create social impact and provide safe investment avenue for the investors. It was introduced in Indonesia in October 2018 and was first launched on 10 March 2020. It is a cash waqf being invested in sovereign sukuk. It is meant to fund the country's infrastructure projects, such as railways, highways, schools, health institutions and others, while at the same time, the coupons earned are distributed to fund social projects or to develop waqf assets. CWLS is part of Islamic investment innovations in Indonesia, to facilitate the waqif to invest and donate their cash in a secure financial instrument, i.e., sukuk. CWLS also encourages the diversification of Sharia banking business, through optimizing the role of LKS-PWU (*Lembaga Keuangan Syariah-Penerima Wakaf Uang*). It is found that CWLS can significantly contribute to many social programs such as in government projects, health sectors, educations and others. CWLS is believed to be an essential instrument in Indonesia and has potential positive impacts on the society because its benefits and opportunities are more considerable than its risks and costs.

In conclusion, CWLS shows a good prospect for Islamic social finance development. Following the findings of this research, the authors would like to suggest that BWI make more partnerships with the related institutions in order to promote CWLS, such as, private waqf institutions, Islamic banks, and *Baitul Mal Wat Tamwil* (a microfinance institution that complies with *Shari'ah* principles which has special social values aiming to raise and distribute funds to the needy public in the form of *zakat*, *infaq*, and *sadaqah*) in Indonesia. Another priority is education of all stakeholders involved in the process of sukuk and waqf development in order to increase their awareness about *waqf* sukuk and Islamic social finance generally.

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