

THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL –

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Abstract: This study aims to highlight the role of waqf -sukuk in financing the public Budget deficit as a legitimate alternative to traditional financial tools based on usurious interest. In the light of which some mechanisms have been devised that help develop the role of endowment instruments in addressing financial gaps and forms of budget deficits that countries suffer from. The study concluded that it is necessary to activate the role of the waqf -sukuk in addressing budgetary imbalances in a way that can benefit from its financing advantages, chief among which is the ability to provide sufficient liquidity that the state needs to expand the base of projects in both the economic and social aspects.

Keywords: waqf; sukuk; Finance ; Budget; Indonesia.

Jel Classification Codes : G229

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Introduction

Al- Waqf has played a prominent role in achieving sustainable development throughout the history of Muslims, through its financing characteristics, which enabled it to enhance its ability to link the endowers and the detainees now and in the future, in a way that combines personal and public benefits.

There is a lot of evidence that proves what we mentioned earlier . The Prophet Muhammad s.a.w. said about the waqf which narrated by Imam al-Bukhari through the saying of Caliph Omar r.a. said: Oh Prophet! I got wealth that I never got it before and I want to be closer to Allah through it. After that the Prophet answered: You tried to keep the origin wealth and making charity (by giving it to the needy people). Then the Caliph Omar r.a. donate his land which he get from the battle of Khaibar, seems the land can't be sell, even to bought as well as to inherit it.

The importance of activating waqf in line with the movement of the economy and for the benefit of the Islamic nation is evident, through the Islamic waqf benefiting from the rapid and growing development in the outputs of Islamic financial engineering. and investing them, which facilitates ways to finance and invest waqf sukuk to activate the waqf and play its essential role in achieving sustainable development in the Islamic society, hence the importance of these instruments.

In light of the foregoing, the problematic features of this research paper crystallize as follows:

To what extent do waqf sukuk contribute to financing budget deficit?

To answer this problem, we divide the research paper into three main axes as follows:

- I. The definition of waqf ;
- II Theoretical framework of Waqf- sukuk;
- III. Raising of capital Through waqf -Sukuk ;
- IV. waqf –Sukuk and addressing the imbalance;
- V. Waqf Sukuk in Indonesia;
- VI. Requirements for activating the role of waqf- sukuk in addressing budget imbalances In light of the Indonesian experience.

I. The definition of waqf

Before going into the theoretical aspect of waqf sukuk, it is good to know the definition of the endowment, which is the subject of waqf sukuk .

The economist can express the waqf as a transfer of money for consumption and an investment in it. A productive capital asset that produces benefits and revenues that are consumed in the future, collectively or individually.

waqf, is a process that combines saving and investment together. It consists of seizing money - that the waqif could consume either directly or after converting it into consumer goods - for immediate consumption, and at the same time converting it into productive investment (i.e., an increase in productive capital) aimed at increasing the production of goods and services in society. This waqf productive wealth produces services and benefits. An example is the place of prayer in the mosque, and a benefit.

THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL -

The patient's bed in the hospital or the student's complex in the school. Also, this endowed wealth can produce any other goods or services that are sold to consumers, and its net proceeds are distributed to endowment purposes.

Waqf come from Arabic word, "Waqafa" which means to hold still and last long. In brief Waqf is transferring personal properties into public properties. waqf asset cannot be disposed, its ownership cannot be transferred, only its benefits are to be used for the specific purpose(s), which is (are) mainly charitable in nature, and It is a voluntary charity characterized by perpetuity¹.

The familiar term, for trusts, in the principle texts of Shariah, is sadaqah and habs. Nevertheless, jurists also use waqf, which, sometime, is written as wakaf or wakap in South East Aisa. In Northern Africa the jurists still use habs or tasbil for the same concept. The Shi'i scholars however differentiate between waqf and habs_ both charitable but have slightly different implication.

Literally, both waqf and habs mean: 'to prevent', or 'to restrain'. Legally they mean "to protect something, by preventing it from becoming the property of a third person"². The classical definition of the waqf is given by Imam Abu Hanifah saying "the appropriation of any particular thing in such a way that the founder's right in it shall continue and the advantage of it go to some charitable object." This definition however is not preferred by his disciples i.e. Abu Yusuf and Mouhammad as well as jurists in shafi'i, hanbali and imami schools.

By this we can understand that waqf is wealth that was kept from the consummation of the original owner and give its benefit to the poor and needy, and that wealth must remain in the same condition without being consummate by the first owner. From these four eminent scholars's views we can learn that all scholars agreed that the waqf is to keep the origin wealth and use its profit for charity in order to help the poor and needy³.

The waqf is a development process, as it includes the building of productive wealth through a present investment process, which looks with the eye of righteousness and benevolence for future generations, and is based on the immediate sacrifice of a consumer opportunity in exchange for maximizing the social productive wealth, whose bounties accrue to the future life of the entire community.

II Theoretical framework of Waqf- sukuk

Islamic bonds of all kinds are gaining great interest from researchers in Islamic financial affairs, and there are many trends for this industry, perhaps the most prominent of which are endowment bonds, because of their financing flexibility that allows those who establish them many financial, economic and even social benefits.

II. 1. The Concept of Waqf- sukuk

Sukuk is derived from the Arabic word Sak (singular) which has Sukuk as plural which means a certificate or note. Technically Sukuk is an evidence (claim) of ownership. It is a certificate of equal value with part or whole of the ownership of tangible property to obtain products and services in asset ownership and a specific project or a specific investment. The

International Islamic Fiqh Academy issued a statement in 1988, defines Sukuk as “Any combination of assets (or the usufruct of such assets) can be represented in the form of written financial instruments which can be sold at a market price provided that the composition of the groups of assets represented by the sukuk consist of a majority of tangible assets”. Further, the Accounting and Auditing Organization Islamic Finance Institutions (AAOIFI), defines Sukuk as: “Investment sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the sukuk, the closing of subscription and the employment of funds received for the purpose for which the sukuk were issued⁴.

The securitization of assets is a highly important stage for the development of capital raising because of its standardization and regulation. All strategies that aims to raise sufficient funds through public source shall opt for Bond or Sukuk in the case of Islamic finance.

Sukuk-waqf is composed of a merger of Sukuk based contract and Waqf. It can be defined as tradable certificate of equal monetary value that represent the money restricted (Al-mal al-mawquf) .

There is a variety of types of Sukuk, which are based on the existing Islamic contracts: Murabahah, Ijarah, Mudarabah, Musharakah, Wakalah and Salam. Other hybrid and complex structure of Sukuk can be found depending on the development of Islamic financial engineering. The general process of Sukuk issuance which will be later used for Sukuk-waqf structuring can be presented as follow:

- Creation of an SPV to represent the investors;
 - Issuance of the certificates and putting them into circulation;
 - Secure the cash-flow through the period of the contract from the issuer to the investor.
- Also, it is worth to note the main parties involved in the issuance of Sukuk:
- the Originator, which is the company wishing to raise funds,
 - the Issuer of the Sukuk, which will be an existing or a newly incorporated special purpose vehicle (“SPV”);
 - the Lead Arranger/Manager, which is the party arranging/managing the whole Sukuk process;
 - the Trustee, who is an appointed party to represent and oversee the rights of the Sukuk holders from the beginning of the arrangement of Sukuk issuance until the full redemption of the Sukuk by the SPV; and

the Sukuk holders, who are the investors intending to invest in the project, and who holds the Sukuk certificates as evidence of their investment in the Sukuk⁵.

II. 2. The structuring of Waqf- sukuk

Systemically, the waqf sector is part of the Islamic financial system that serves all segments of society. The commercial sector, which consists of Islamic banking, the capital market, and takaful, is here to entertain the middle and upper-income earners by providing financial products and services that are entirely on a commercial basis. Funds mobilized were channeled for various purposes related to production and consumption activities as well as infrastructure development.

THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL -

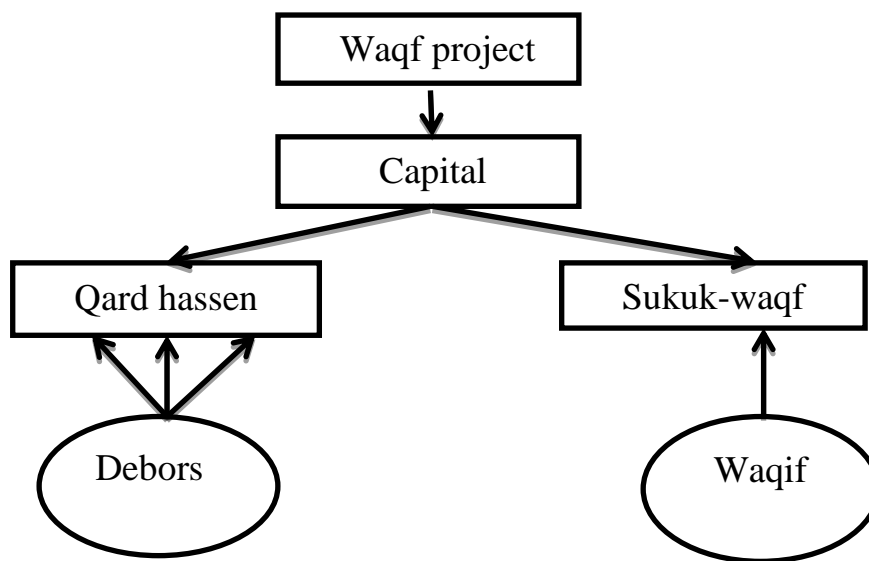
The government, in turn, can also mobilize funds through tax collection and also the issuance of government Sukuk to finance expenditures (general spending and infrastructure development). The Islamic social sector consisting of zakat and waqf exists to serve low-income people by providing cheap economic programs. These programs can include basic consumption, business incubation programs, health services, educational programs ⁶.

The structuring of Sukuk-waqf may not differ from the structure of investment Sukuk in the form but in the purpose. In fact, the holder of normal investment Sukuk aims at profit based on the rule of “Alghunmu bil ghurm”. However, the holder of Waqfsukuk is not driven by any lucrative consideration ashe only aims at Allah’s blessing and serving public interest.

It is important to note that it should be feasible to merge other form of financing in the case of big public project because of insufficient fund or time pressure. Al-qard al-hassan could be one the instrument that could complete the structure of the project ⁷.

The structure by which public authorities could raise fund for socioeconomic project can be presented as follow:

Figure (1) The Structure of a Sukuk-waqf operation



The source: Oubdi, Lahsen and Raghibi, Abdessamad April 2018 , Sukuk-waqf: The Islamic Solution for Public Finance Deficits, Munich Personal RePEc Archive, p 5

II. 3 Nnovating Development of Waqf – sukuk throught Islamic Capital Market

Innovation is an important element that can be used to promote the development of waqf. Innovation requires concerted efforts by many parties and acceptance of new ideas. As the development of waqf assets may require huge amounts of capital, innovation can take the form of new ways of financing which depart from the traditional methods of financing from f inancial institutions. The availability of Islamic capital market products can be used to raise the needed capital while professional services provided by Islamic capital market intermediaries (e.g. asset managers licensed by the supervisory authorities) can be harnessed to efficiently manage waqf assets. These licensed intermediaries have resources and expertise in assessing, developing and managing the waqf

assets thereby creating opportunities for larger economic returns to the community. By leveraging on these available avenues, waqf institutions can broaden and enhance social impact projects as well as sustainable and responsible development within the country. There are various products and services available in the Islamic capital market to meet the demand and preferences of both Islamic and conventional stakeholders. These products can facilitate the development of waqf assets either for raising capital or for investment purposes which will be explained further in this chapter⁸.

III. Raising of capital Through waqf -Sukuk

The Islamic capital market is one of the main components of the capital market in certain jurisdictions. It functions as a parallel market to the conventional capital market, and plays a complementary role to the Islamic banking system in broadening and deepening the Islamic financial markets.

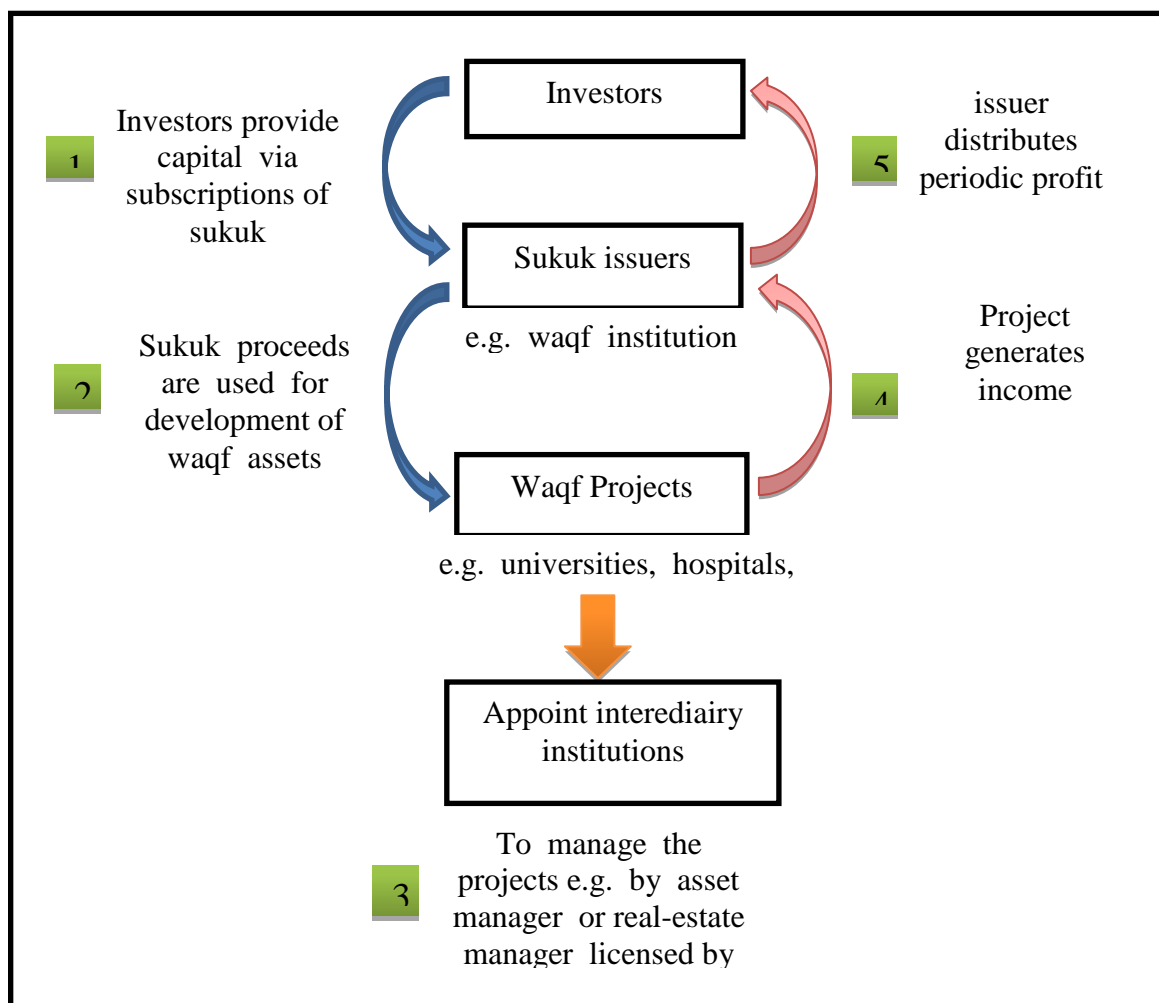
III.1 Raising of capital Through waqf -Sukuk method

The core proposition of Islamic finance draws from its inherent features and the values that it brings to the economy, and the tremendous potential that it offers in supporting sustainable economic growth and in safeguarding financial stability⁹. These core propositions are derived from the Shariah, which dictates that Islamic financial transactions must be supported by underlying productive activities. This Based on capital market, the waqf shares scheme is relatively easy to raise funds from the public via traditional collections of money by cash or mobile payment systems which are widely used in Somalia. It is argued that the funds generated could be used to create employment opportunities, and as a result, many poor Somalis will be empowered financially, socially and educationally . Lastly, cash waqf can combine with Islamic microfinance such as baitul maal wa tamwil. Sharīa Cooperatives registered as cash waqf nazhir and in cooperation with Bandung City Fintech companies are owned by BMT ITQAN only where they are financed by itqanmobile and involve the Fintceh platform kitawakaf.com with the help of the House Financing Assembly empowerment program for BMT member SMEs with waqf funds and the waqf management models¹⁰.

Waqf institutions can opt to explore raising capital for the development of their waqf projects through issuance of sukuk. Sukuk are widely used instrument in the Islamic capital market to finance specific economic activities in accordance with Shariah principles. Sukuk have flexible characteristics in which they can be structured to meet the medium to long-term financing requirements. Thus, sukuk may be issued for various purposes to satisfy the issuer's commercial needs, such as for the purpose of financing working capital and capital expenditure requirements, vis-à-vis the investors' (sukukholders) investment and risk appetite. Diagram 1 provides an overall picture of how capital raising from sukuk issuance could be used for the development of waqf assets¹¹.

THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL -

Figure (2) Raising capital through sukuk issuance for the development of waqf assets



The source : Securities Commission Malaysia(2014) , Op.Cit, p 21

Meanwhile, other form of Islamic financial instrument, sukuk, had also been recognized in the past as instrument for international trade. In the Middle Ages, sukuk

recognized as a recognition letter of obligation of a person who requested deferred his payment to certain party (Musari, 2019). Besides Waqf, Sukuk also became a vital role in a long story of Islamic civilization. In the modern era, sukuk resembles a conventional fixed-payment debt. But there is fundamental difference between sukuk and debt-based conventional payment on an ownership of the asset or an existing of the project.

III.2 The Right of waqf –Sukuk Profit

Since sukuk is an investment certificate, the main motivation from the parties that is involved in sukuk contract obtains the profit from the cooperation activity. Some of the sorts and the ways to obtain the profit are elaborated as follow:

a. Nadzir/IWB/waqf management, obtain the whole of ownership right to establish the building on the waqf land based on the agreement after the due time.

b. Developer obtains the profit, besides obtains the cash easily he also obtains the profit from the ongoing project by using cash obtained from asset securities.

c. SPV will obtain the profit. It depends on the situation where he puts the role in the publication of sukuk certificate. Since the position of SPV party as the representative of the developer, thus the profit will be in form of 'ujrah.

d. Meanwhile, the sukuk holder acts as the trader who put the financial capital, thus the profit will be obtained based on sukuk contract that has been invested. Since the investment is in the contract of sukuk ijarah, the profit that is obtained from renting the asset will be paid by the developer in the certain contract period time ¹².

IV. waqf –Sukuk and addressing the imbalance

This axis will be addressed through the following research dimensions:

IV.1 Budget deficit

Budget deficit is the economic challenge of many countries in recent decades. This problem is more widely seen in developing countries, as they are deprived of efficient private sector. This leads to extending governmental activities and increasing government economic share in such countries such that a main share of total demand is assigned to expenditure and government investment. In contrast, in revenue side, government lacks adequate revenues to cover its huge expenses. The result of such process in these countries is nothing but permanent budget deficit. If government relies on banking resources for financing the budget deficiency, it may lead to economic inflation such that internal (domestic) imbalance would also transfer to the external economic sector, since increased government expenditure initially leads to increased growing of total demand.¹³

The term 'deficit financing' has wide applications even extending to TV shows. In economics, it connotes the amount by which a resource falls short of a given target; indicating most often a difference between cash inflows and outflows or the shortfall by which expenses or costs exceed income or revenues.¹⁴

Although the traditional financial tools provide temporary solutions to the problem of the public budget deficit, they subsequently cause an increase in its expenditures and create inflationary effects, as a result of the current fiscal and financial inflation; waqf sukuk is considered one of the most important innovations, capable of being the most appropriate alternative to these instruments, in financing the public budget deficit¹⁵.

IV.2 Waqf and Public Financing Throught History

A closer look into the History of our civilization will show the crucial place of Waqf within the structure of Muslim Empires. From the age of The Prophet Peace be on Him to the Ottoman Empire, Waqf played a big role in education, healthcare and defense replacing the conventional tools of public financing such as tax. One of the first example of a waqf for social purposes was a drinking water well (called Rummah), which was bought from a Jewish man to provide free drinking water to all. Although Kp: the total amount of the project; a: Nominal value of Waqf certificates; w: the slope; c: total amount of qard al-hassan. The other issue that may arise with the use of a debt component within the

THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL -

structure is the element of 14 Qard Al-hassan means a debt that does not generate any interest. The primitive role of Waqf used to finance mosques and religious teachers, it is important to note the expansion of the financing to all forms of education from the Umayyad and Abbasside reign¹⁵. In fact, in their periods, it was a fact that there were no organized structures of waqf institutions as specific departments or ministers for taking care of public works, roads, bridges, mosques, schools, libraries and hospitals in order to cover those public needs.

Zubaidah, the wife of Harun al-Rashid, as an individual, made land as well as cash waqfs in order to construct high ways from Baghdad to Makkah, bridges, and shelters for the helpless. Awqaf of the Ayubites (1171-1249) and the Mamalik (1249-1517) in Palestine, Syria, Lebanon and Egypt are good examples. El qods had 64 schools at the beginning of the twentieth century all of them are Waqf and supported by Awqaf agricultural and metropolitan properties in Palestine, Turkey and Syria. At its creation in 1923, three-quarters of the arable land in the Republic of Turkey belonged to awqaf. Also, one-eighth of all cultivated soil in Egypt and one-seventh of that in Iran were known to be waqf property. In the middle of the 19th century, one-half of the agricultural land in Algeria, and in 1883 one-third of that in Tunisia, was owned by Awqaf. It is surprisingly clear the remarkable value of Waqf and its stake in the economy was, which shows the leverage that it plays in creating a third option separate from the profit-based private sector and the official public sector. The Waqf institution has reached its peak during the Ottoman Empire where Waqf is directly involved in the economic cycle through job creation, agricultural, education and public welfare. Roadhouses and arcades, bakeries, grinders, workshops of candle and lead, bozahouses, abattoirs, etc., fair and market places, which were built in order to provide religious, cultural and social institutions, generally located around a mosque, such as madrasah, library, foodhouse (imaret), guesthouse (tabhane), hospital (darussifa), bath (hamam), caravansary and residences of the officers. **SUKUK-WAQF AND ITS MODERN APPLICATION** Questions about the viability and applicability of Sukuk-waqf should be raised by this stage. It is believed that such papers and models are always left behind after short formal discussion. However, the current awareness about the social dimension of Islamic finance has brought public attention towards Waqf again. Indeed, projects based on Sukuk-waqf have started to merge.

The most important one would be the initiative of ISRA to launch a social project in New Zealand based on Sukuk-waqf. The project will be implemented jointly by Awqaf New Zealand, ISRA and Security Commission of Malaysia. The goal is to issue the world's first Waqf-Sukuk worth of \$1bn. The proceeds of the sukuk will be utilized to establish farming industry in New Zealand and Canada. Via these farms, Qurbani (slaughtering animals) will be provided for Muslims particularly in the west. The waste of the animals and skins will be used to produce shoes and bags etc. The revenue will be used for charitable and social purposes all over the world. Also, Indonesia has joined the path of implementing Sukuk-waqf to develop social property assets to be commercially self-sustaining and employ employees of these institutions as well as infrastructure facilities such as water channel and sewerage system with regular income (each one is to be allocated to a group of art or trade competent), comprised the skeleton of the new city or district to be built or an old city

quoted from . Also, most of our architectural masterpieces such as Suleymaniye and Selimiye were created with the help of waqfs . Also, it has also been estimated that the ratio of people employed by the waqf institutions to those employed directly by the state Turkey in 1931 was 8.23% to 12.68% . This shows the role of Waqf in alleviating the civilization through rapid and self financed urbanization far from the intervention of the State¹⁶.

IV.3 Waqf- Sukuk as a mechanism to reduce public spending

The economic and developmental effects of endowment sukuk make them an effective Islamic financial tool in reducing public spending. It's spare the state many aspects of public spending directed to support needy parties and spending directed to social support in general. This can be demonstrated through the following points :

From a macroeconomic perspective, the Islamic social sector can be seen as a suitable vehicle to complement the government's efforts to reduce poverty. Waqf assets are useful in many ways as follows: (a) Waqf infrastructure - assets can be used to support the community in supporting the economic activities of a community group that has not reached a critical period in production. Production costs can be brought to the level of economic competitiveness when offered to the market; (b) Low-cost funds - excess yields of waqf

assets can be used in a flexible manner to support the economic development of low-income communities; and (c) Underlying/basic Islamic securities - waqf assets (especially land) can be the object of financing or issuing Islamic securities (particularly Sukuk) for social projects. The benefits mentioned above are economically beneficial for expanding a country's production base; thereby strengthening national economic stability. The role of the Islamic social sector is providing investment portfolios with higher returns and more contributions to the economy. The presence of zakat and waqf funds opens opportunities to increase the supply of credit to the community without having to increase the potential risk because these facilities are available through specially designed contracts and the cost of funds is zero. The economic system will then have the opportunity to strengthen the financial cushion to secure economic production in normal times as well as financial difficulties¹⁷.

Generally, The importance of waqf sukuk in reduce public spending has increased as a result of many factors, most notably:

1 - Securitization operations assist the original source in matching the sources of funds and their uses, which contributes to reducing the risk of mismatch between the terms and uses of resources

2 - Endowment sukuks contribute to attracting a large segment of individuals who wish to operate their money according to

The provisions of Islamic law, especially from outside the Islamic world.

3- Contribute to managing liquidity at the macroeconomic level, as investment opportunities are available

Diversity for individuals, institutions and governments, as the mechanism of trading increases, that is, the alternatives to investors increase in

Money bills.

THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL -

4 - Issuing endowment sukuk are considered as off-budget items and do not require a large cost to manage, and accordingly, they will contribute to improving their financing of the financial centers of institutions and companies.

5 - Contribute to covering part of the budget deficit of the state as it supports the growth of the gross domestic product without the need for additional investments¹⁸.

IV.4 Waqf Sukuk and Economic Development

In Malaysia, the waqf asset financing through sukuk has long been applied. Sukuk Sustainable and Responsible Investment (SRI) is used to finance economic activities based on the principles of sharia. In this way, the development of waqf assets can be implemented more efficiently with a broader investor and a greater and promising capital guarantee. In sukuk underlying asset is a mandatory thing that distinguishes between sukuk and bonds. Underlying asset functioned as collateral for sukuk, so the issue of sukuk has the same value with the available assets. For the assets used as collateral should have economic value, it includes projects that are or will be built. The function of the underlying asset is to avoid usury as well as the requirements to be marketed in the secondary market. But in sukuk with the concept of waqf, waqf land will be used as underlying assets for the project to be built. Because, basically both the investor and developer alike benefit from waqf land and buildings to be constructed¹⁹.

Undoubtedly, the social role played by **Waqf Sukuk** contributes greatly to economic development, and we can see this through the following points:

- Providing the basic needs of the poor such as shelter, education and health contributes to developing their capabilities and increasing their productivity, which leads to an increase in the quality and quantity of the human factor, which is the main axis in the process of economic development.

- The state's assistance in providing basic needs leads it to direct the financial surpluses that were to be spent on the non-productive social aspect to profitable productive investment projects.

We also see the economic role of **Waqf Sukuk** as follows:

- The endowment contributes to the development of savings and the fight against hoarding by investing funds in charitable investment projects;

- **Waqf Sukuk** helps in establishing investment projects through which a large number of workers are employed;

- **Waqf Sukuk** contribute to financing small projects, exploiting local wealth, increasing production and increasing incomes, including increased savings and investment.

- Availability of more goods and services, which leads to more prosperity, an improvement in the standard of living and an increase in export capabilities;

- Contributing to the establishment of some projects that the state was unable to establish;

- Contributing to increasing the gross domestic product, through the added values achieved by the projects that were established and financed with **Waqf Sukuk**²⁰.

IV.5 The Social role of Waqf Sukuk

Project-based sukuk can provide benefits to social welfare by having crosssectoral financing to the awqaf sector. Concretely, project-based sukuk are structured as sukuk related to awqaf with

awqaf land as part of fixed tangible assets to finance government and corporate projects. Therefore, sukuk waqif investors with Nadzir as economic agents (representatives) appointed by government agencies or corporate institutions. Nadzir has full responsibility for overseeing awqaf assets and the right to certain management fees. Awqaf-related sukuk can serve both commercial and social purposes, depending on investor preferences, with the former having a sukuk return and the latter having no sukuk returns. . Waqf has a socio-economic dimension that has greater flexibility, acceleration and sustainability than other institutions. Waqf has great potential in helping economic development. Waqf institutions have now evolved from the realm of socioreligious activities to economic activities.

The majority of waqf fund managers are oriented towards physical development, do not reach productive activities . Examples of successful integration of waqf with sukuk are: a) Sukuk al-intifa'a as an innovative instrument to develop waqf since the early 2000s. King Abdul Aziz Waqf (KAAW) has developed the Zam Zam Tower through this instrument. b) In Singapore, sukuk musharakah are issued to increase the capital to purchase a building at 11 Beach Road, for a mixed development project on Jalan Bencoolen, and for the maintenance and maintenance of a mosque on Bencoolen Street. c) In New Zealand, Awqaf New Zealand has experience in generating income from the waste products of sheep and cattle slaughtered for Qurbani. This has allowed the awqaf industry to flourish in New Zealand and is now being replicated in many Muslim minority countries. Waqf linked sukuk is a way to generate the money needed to buy livestock and create a sustainable awqaf industry.

For the success of waqf and sukuk in various fields and social development, educational institutions can use the innovative product waqf model by using sukuk issued by waqf institutions as nadzir, as well as institution as a third party. The types of sukuk that can be used in the development of educational institutions include sukuk al-intifa', sukuk ijarah, sukuk wakalah²¹.

V. Waqf Sukuk in Indonesia

Waqf-based sukuk is an innovation in empowering the number of unproductive waqf assets in Indonesia. Because essentially waqf should continue to grow and generate benefits without reducing the core of the initial assets of the waqf.

Sukuk-based waqf stands from 2 different contracts, namely: first, waqf. Waqf that is built on a social contract, there is no material return that is expected for the wakif but only hopes for the pleasure of Allah SWT and the benefit of the waqf for the people.

managed through nadzir. Second, sukuk. Sukuk built on an ijarah contract that has a business nature. Of the two different contract objectives of sukuk-based waqf collaborated for a greater benefit.²².

Waqf Sukuk in Indonesia (CWLS) is a social Islamic investment instrument in which cash waqf is collected by the Indonesian Waqf Board (BWI) as naz{ir through Islamic Financial Institutions Recipient of Cash Waqf (LKS-PWU) which then managed and placed on the State Sukuk or SBSN (State Sharia Securities) instrument issued by the Ministry of Finance (Kemenkeu).

CWLS as an Islamic financial instrument was first launched in December 2018 to coincide with an interesting IMF-World Bank event. Annual Meeting 2018 on the island of Bali. Imam

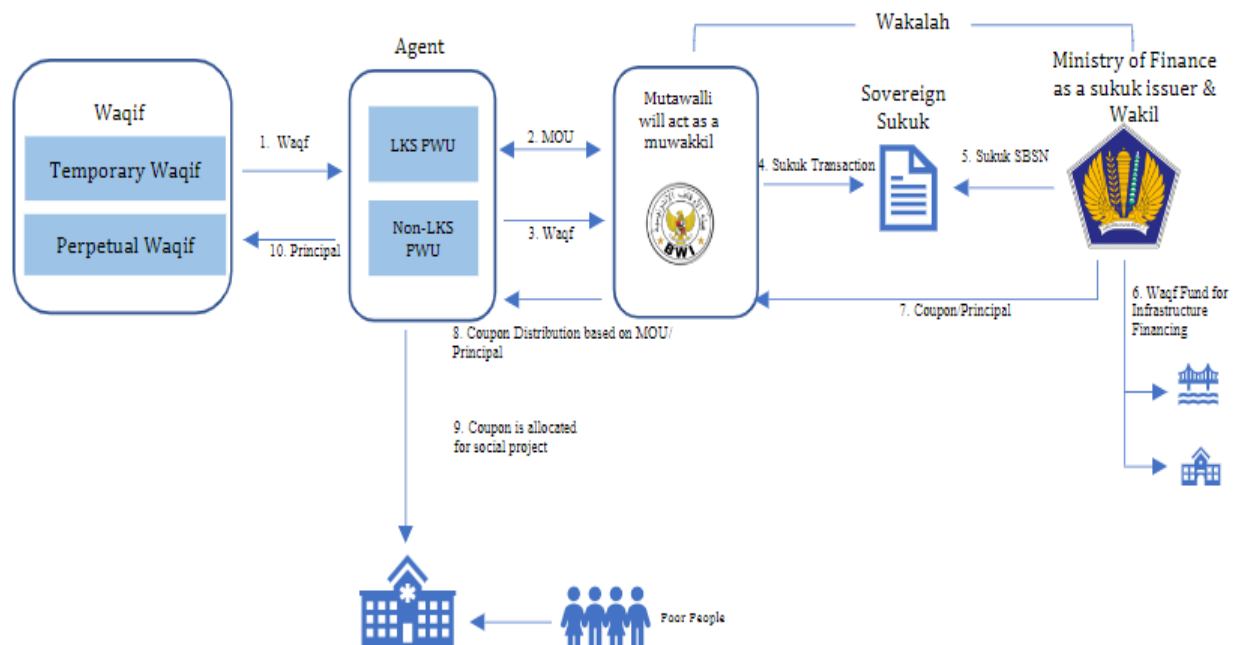
THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL -

Saptono, deputy chairman of BWI, stated that the issuance of CWLS was motivated by several reasons that made this sukuk linked waqf an alternative investment.²³

Waqfin 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 waqffund would be invested in sovereign sukuk issued by Indonesian Ministry of Finance.

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 Ministry²⁴.

Figure(3): Cash Waqf Linked Sukuk Scheme



The Source : Najim Nur Fauziaha , Engku Rabiah Adawiah Engku Alib , Alliqa Alvierra binti Md Bashirc , Asmaou Mohamed Bacha(2019), An anlysie of cash waqf linked sukuk for socialy impactful sustainable projects in Indonesia , Journal of Islamic Finance, Special Issue Vol.10, IIUM Institute of Islamic Banking and Finance, p 07

As shown in the Figure 3.1 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 waqif 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.

Waqf-based sukuk is an innovation in empowering waqf assets to be productive. The birth of sukuk waqf aims to optimize cash waqf management. The development of social instruments such as cash waqf can help the government improve welfare and provide social services to the community. Even less, the information memorandum on CWLS series SWR001 clearly states that the returns from SWR001 will be used for the fulfillment of non-APBN social programs that are very helpful for the government.

In modern Islamic economy, waqf- sukuk have three functions, such as the investment function, support the velocity of money, and a tool to reach the sustainable development. The large number of waqf assets that are not productively empowered is due to lack of funds to empower or manage these waqf assets. Financing is an important factor in empowering other waqf assets such as waqf land to make it more productive.

The low realization of sales result of SWR001 led to the threat of many social programs that had been planned by nadzir not being implemented properly. It is necessary to carry out a comprehensive evaluation of the stakeholders so that the existing potential can be utilized optimally. Several strategies that can be taken to market the next series of retail waqf sukuk include offering to existing wakif that have been registered at Islamic Financial Institutions Receiving Cash Waqf, offering priority customers, holding more massive socialization, and cross selling to customers individuals and institutions. Expansion of distribution partners and development of ways of ordering CWLS online so that wakif does not need to come to distribution partners.

Another view is that if the sales results of SWR001 are well realized, it can also be used to meet residential needs. For example, the program of Hasanah Titik Foundation nadzir will use the yield from the SWR001 sukuk waqf for the Hasanah residential waqf. Hasanah Titik Foundation stated that it would provide temporary housing until the beneficiaries had the financial capacity to live elsewhere. The use of waqf assets to provide livable houses is an innovation and practical solution in an effort to utilize waqf funds for the welfare of the people, in this case the fulfillment of livable houses. CWLS also has the potential as an appropriate disaster recovery financing instrument. Waqf sukuk can be used to finance post-disaster infrastructure development, while the proceeds from the use of sukuk (coupons) can be channeled to achieve a variety of post-disaster needs. Considering that several regions in Indonesia have high potential for natural disasters, this model can be developed further.

To increase the investment nominal and the CWLS wakif, it is necessary to map potential investors. The CWLS offer is developed not only for bank financial institutions, namely Conventional Banks, BUS, UUS and BPRS but includes Non-Bank Financial Institutions (insurance, pension funds, pawn shop), private companies (automotive, oil companies, mining, and

THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL -

others). For example, non-bank financial institutions can allocate his corporate social responsibility funds, excess liquidity, and support from the Bank's parent company to invest in the SWR001 waqf sukuk. Nadzir can also take advantage of the widespread network of distribution partner offices as a means of depositing waqf funds

Finally, changes in rules and laws, for example, a part of the APBN deficit is issued by government sukuk, including being financed from CWLS into the future direction. The joint efforts to encourage the transformation of an environmentally conscious society and the hereafter towards an investment-oriented society based on social investment are a great opportunity. In addition, the opportunities for CWLS can be infinite because more and more Islamic financial institutions are being followed by sharia economic study programs in both private and public universities which has been established²⁵.

. However, from the various future directions, it is important to remember that there are issues, challenges and hopes for the future, CWLS must not violate the basic laws of Islamic rules regarding waqf.

VI. Requirements for activating the role of waqf- sukuk in addressing budget imbalances In light of the Indonesian experience

There are a set of conditions that must be met to advance the role of waqf- sukuk in achieving development and reducing the financial burden on the state :

- **the flexibility of the legislation**, The issue is not only related to the existence of legislation that allows the circulation of waqf- sukuk in the secondary market, as much as it is related to factors that ensure the smooth and successful listing and circulation of the issue, in addition to encouraging more issuances and the flexibility of the legislation so that it accommodates future amendments that may occur in accordance with data and economic and development developments.

- **Exempting the circulation of waqf- sukuk from taxes and stamps of all kinds**, whether in the case of buying or selling, to encourage the investor to turn to this management. In the case of its approval, and we say here that this is a narrow view, as the taxes are set to achieve the benefit of the state treasury, and in the case of sukuk for the benefits that the state will derive from providing liquidity for the purposes of implementing mega projects, it is more important than that. Also, the waqf- sukuk can be directed to serve the development plan in the state. The benefit obtained from paying this tool and encouraging investment through it will return to the state with multiple benefits and much more than a temporary and specific tax, however, it is necessary to tighten control over implementation.

- **Spreading investment awareness and clarifying the characteristics of waqf- sukuk** and their low risks compared to other similar financial instruments, in addition to spreading awareness of the characteristics of Islamic finance, and these characteristics enable Islamic countries and individuals by directing their investment plans to a more just and secure investment method.

- **Strengthening governance and Sharia supervision**, in addition to financial and administrative control, from issuance through trading to closing, in order to motivate investors to

adopt this tool. In addition, this is one of the conditions for ensuring the integrity of the instrument and its circulation, and it is one of the accompanying Shariah principles²⁶.

- **Encouraging the massive initial issuances** to be active in the beginning to form an effective secondary market, especially at the beginning of offering these products through secondary markets.
- **Encouraging investment funds and diversifying their components** to include Islamic sukuk;
- **Independence of waqf Institution**, The endowment will not be granted the status of a public institution. It has a real independent legal personality that gives it the power to carry out its duties. -
- **Developing the capabilities of those in charge of waqf funds**: by setting specific qualitative criteria to fill the jobs of the endowment sector.
 - **Following the concept of the developing waqf**, this concept came to consolidate the principle of the developmental allotment by deducting part of the endowment proceeds, unlike other allocations to reinvest them in permissible investment aspects, and this is what enables the transformation of the developing endowment institution into a financial institution²⁷.
- **Good e waqf- sukuk risk management**: By providing accurate risk measurement mechanisms and formulating strategies to reduce their risk .

Conclusion

This study dealt with one of the most important topics in Islamic finance, which is the issue of waqf- sukuk, which contribute to achieving social and economic development in Islamic countries, due to their ability to raise funds and invest them, allowing to address the total imbalances, on top of which is the budget deficit.

Through this study, we concluded by formulating the following proposals:

- waqf sukuk are in line with many forms of investment because their contracts take many financing forms.
- The success of the Indonesian experiment depended primarily on the existence of a flexible legislative system, and a developed financial market that depends on disclosure, transparency and high dynamism in dealing.
- There are many landmarks that prove the economic and social importance of the waqf, the most prominent of which are its opportunities to embody economic projects and create new job opportunities.
- Developing waqf- sukuk would require innovation in the form of new ways of financing and investment Even modern asset management.
- Transforming the endowment into an institutional form that would enhance the opportunities for growth and expansion of the endowment, and not be limited to maintenance and preservation.
- Exempting trading in waqf- sukuk from taxes is an important factor to support the development of waqf and investment in it.

Based on the foregoing, we suggest the following

- Activating the waqf's role requires re-pumping blood into it by proving ownership contracts for previous awqaf (endowment's), and enacting a policy of attracting other endowments.

THE ROLE OF WAQF-SUKUK IN ADDRESSING THE BUDGET DEFICIT – THE INDONESIAN EXPERIENCE AS A MODEL -

- The necessity of institutionalizing the waqf and supporting the trend towards its management using modern administrative methods, in a manner that ensures its sustainability and development.
- The necessity of finding a legal framework that allows for the formation of the waqf and paves the way for the formation of the waqf, and the possibility of waqf funds to organize the subscription process and the collection of capital.
- waqf- sukuk can provide the necessary capital to finance major government projects, even those aimed at reducing poverty, which represents a fundamental solution to the issue of the budget deficit, and therefore a development strategy must be built on these sukuks as an important financial resource.

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