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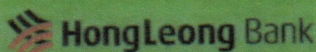


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Cash Waqf Model for Poverty Alleviation and Strengthen Financial Inclusion in Indonesia

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Abstract

Many studies related waqf and poverty alleviation concluded that Poverty alleviation program in Indonesia requires huge amount of fund that cannot be provided thoroughly by the government. So, the initiation of new sources of fund for such a program is inevitable. In the Islamic social-economic concept, there is a source of social fund that is economically and politically free of charge, namely cash waqf (*wakaf tunai*). However, the current researches did not follow up to deal with the issues and ignoring the role of microfinance and Cooperative based on community, Besides that, these issues have not been related from the government financial inclusion (FI) movement. Therefore, this research attempts to develop the appropriate cash waqf model in Indonesia by involving community, Cooperatives and Microfinance. The study is descriptive deductive analysis and modelling by using IDC method (intelligent, design and choice). Besides that, interviews were used to grab and map out the waqf stake holders minds. The study revealed that, cash waqf model by involving Baitul-mal Wattanwil (BMT), Cooperative, and Communities would be significant role in the poverty alleviation. The cooperation between Nadhir, Waqif, Cash Waqf institutions, Micro Small and Medium Enterprises (MSMEs), and Islamic Micro finance and Cooperatives is urgent. In addition, the result will enhance to the government financial inclusion movement. The government should involve in this action i.e. to support and prepare regulations and Acts needed.

Keywords: Financial Inclusion, Waqf, Cooperative, Micro Finance, Poverty Alleviation

INTRODUCTION

This paper tries to offer a design of the most suitable role of BRI in the system of the Indonesian Cash Waqf House, which will be established as soon as the supporting, proposed National Act is approved by the House of Representatives¹. The idea is developed from some of our previous research in cash waqf certification model and microfinance for coastal community.

Poverty alleviation program in Indonesia requires huge amount of fund that cannot be provided thoroughly by the government. Therefore, initiation of new sources of fund for such a program is inevitable. In the Islamic socio-economic concept, there is a source of social fund that is economically and politically free of charge, namely cash waqf (*wakaf tunai*). In this concept, *Nadzir* (cash waqf fund manager) collects the fund from *Waqif* (cash waqf payer) and invest the money in the real sector (mainly Small & Medium-sized Ventures) and in any opportunities based on *syariah* investment. *Nadzir* will then allocate all profits and returns gained from the investments to any poverty alleviation programs to enhance the quality of poor people's life, such as free education and health service, cheap basic food, etc.

Nadzir is obliged to maintain the amount of fund in such a way that it does not go below the initial amount. Therefore, *Nadzir* not only should be highly capable, but also needs a financial institution, which has been proven to be experienced, highly capable and effective in helping SMEs development efforts, since such a microcredit program is considered as the most vital portfolio in the poverty alleviation program.

BRI has shown an excellent track record in conducting micro banking and strong commitment to SMEs development, as well as to poverty alleviation program. Therefore, BRI is the most valuable choice and is

The National House of Representatives (*DPR*) was expected to issue an approval on a National Act regulating the operation of Indonesian Cash Waqf House in September this year. Expected to play main role in assisting *Nadzir* to manage the collected cash waqf fund and to distribute the returns to enhance the Poor's welfare in Indonesia.

Trend of people initiating small and medium scale businesses in Indonesia may stimulate larger entrepreneurship activities in the country. This will in turn support the emergence of tough entrepreneurs, which can help accelerate Indonesian economy. Starting small and medium scale businesses is one of the most effective ways for creating jobs and reducing unemployment rate.

Small and medium-sized enterprises (SMEs) are one of Indonesian economy's pillars. They have proven to be able to successfully survive during the Asian crisis. When many larger companies were default throughout the crisis leaving large amount of bad debt, most of Indonesian SMEs successfully managed their business and paid their liabilities. Therefore, collaboration among relevant government agencies, banking authorities, and academicians, for initiating conducive circumstances for SMEs development efforts, is inevitable.

In addition to favorable regulation, and effective integrated marketing strategy, SMEs development needs appropriate financing program. Hernandi De Soto in his book titled *The Mystery of Capital* (2001) bottom-lines significance of informal business sector in a developing country's economy. He further reveals that most of economic crisis taking place in developing countries result from the economies' inability to grow capital. Assets in such economies cannot be used as working capital due to property right problem, while credit for additional capital requires justification of property right.

Large amount of debt has weakened Indonesian economy for the past seven years. Currently, Indonesian foreign debt is approximately USD 130 billions, which consists of government foreign debt of USD 70 billion and private sector's foreign debt of USD 60 billion. In addition, domestic government debt has reached IDR 650 trillion level. Nevertheless, amount of the debt will continue increasing since Consultative Group on Indonesia (CGI) meeting in Bali (January 2003) has decided to issue a USD 2,7 billion loan to Indonesia. Meanwhile, the government faces deficit budget almost every year since 1997, which means that the government may find it difficult to cover its routine.

Expenditures, those regular balance sheet items require so large amount of fund that government cannot provide adequate fund for other strategic needs, such as good education, appropriate health, and SMEs development.

One of potential solutions to the necessity of sufficient fund for public needs is waqf fund, which results from people's donation. People (*ummah*) donate their money as cash waqf by purchasing cash waqf certificate. The gathered fund will be then invested in various investment portfolios, of which profit can be spent for the abovementioned public needs. The gained profit will also be used for funding poverty alleviation programs, while the principle will be reinvested in various highly profitable investment opportunities.

Waqif donates his/her money as waqf fund to *Mauquf' alaih* (a person who is entitled to get benefit from waqf fund) through *Nadzir* (a person/an institution that is in charge for managing waqf fund and distributing returns of waqf investment). Only gains of the invested waqf fund will be delivered to *Mauquf' alaih*. The principles keep being invested in potential investment opportunities. In relation to its role as waqf fund investment manager, *Nadziron* behalf of Waqf Institution may allocate some waqf fund to finance SMEs' businesses on the basis of profit sharing system.

The larger the investment returns, the more fund can be allocated to poverty alleviation program. In some countries, waqf fund management has effectively reduced poverty and enhanced people's welfare, by providing additional fund for education & health development programs, cheap houses & public facilities development programs, and so forth. On the next part of this paper, we will discuss definition, law, and history of cash waqf to recognize the concept and its potential benefit

Research Gap

Waqf development in Indonesia has been initiated by DSN and Badan Amil Zakat and Waqf Board Indonesia to empower poor communities in an inclusive financial access based on sharia view to strengthen the poor. Zakat and endowments also an economic instrument that can serve as an instrument FI as well as to help the poor. It is expected with this system, to strengthen the poor. Besides, the government can make this system as a means of controlling the monetary and economic strengthen Indonesia. But the procedure waqf in Indonesia is not simple i.e. should involve Islamic banks that require cash waqf submitted to the bank, then if the manager wants to distribute the endowment fund must submit a proposal and the new funds would be disbursed one year later so that the people of Indonesia is too long to wait. Therefore we need new designs involving micro finance agencies where these agencies have very close relationship with the poor.

Research Objective and Method

The study aims to develop the appropriate cash waqf model in Indonesia by involving community, Cooperatives and Microfinance to tackle the weaknesses of the current model. The study is descriptive deductive analysis and modelling by using IDC method (intelligent, design and choice) to develop model. IDC approach is used to design the framework. IDC includes intelligence, design and choice (Forgionne, G. A,2000). Intelligent, searching for information and conditions related to the problem. Design, developing and analyzing possible alternative actions solution. Choice, selecting a course of action among those.

DEVELOPMENT CASH WAQF MODEL IN INDONESIA IN TERM OF FINANCIAL INCLUSION MODEL

Financial Inclusion Concept

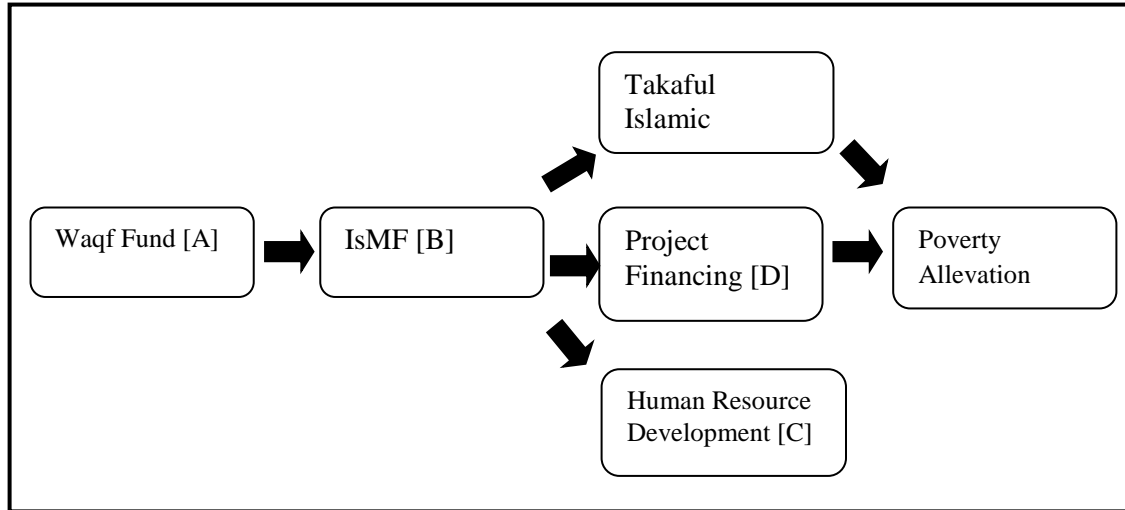
Financial inclusion (FI) has been developed in 108 countries, where some of them put microfinance as the main pillar i.e. India, Bangladesh, Meksiko, Afrika Selatan, Kenya, Trinidad and Tobago (Chibba, 2009). FI attempt to reach all level in the society connected to financial services access include unbanked people / poor people. In fact, just 32% Indonesian people have access to financial services (Bank Indonesia, 2013). It is worse than the world average (50%). Even the Indonesian exclusive financial level is still high compared to southern Asia. Table 1 showed that the average population is still missing financial services (financial exclusive) in South Asia is 58% while 68% for Indonesia.

In Indonesia financial inclusion program has long been done by microfinance institutions, credit unions, cooperatives sharia, and BMT various ways and efforts. However, it is still in limited areas and small scope, therefore, the role of government is essential to infrastructure support, commitment, and act - regulation framework.

Moreover, model Waqf and Zakat in the FI scenario has been offered by SESRIC (Statistical, Economic, Social Research and Training in Islamic Countries). It revealed that the Waqf funds (A) is managed by Islamic microfinance (B) have poverty allevation in Bangladesh, Malaysia and Indonesia. Besides, this model also has developing Takaful (E) and human resource

development (C), and project financing. SESRIC model integrates Waqf, Islamic Microfinance, empowerment, and Poverty Alleviation. Which is described as follows:

Figure 1: Model Integration Waqf, Microfinance and Poverty Alleviation



Soure: SESRIC 2015

Cash Waqf

Waqf is an endowment made by the rich to benefit the poor. It is one of the important elements in Islam in alleviating poverty through providing basic needs to increase general welfare of people (Sadeq, 2002). Alleviation poverty through waqf is basically a mechanism to reduce gap opportunity between the rich and the poor in accessing or acquiring basic needs.

Cash waqf, a new kind of waqf, has also been approved by the Ottoman courts. Cash waqf was a Trust Fund established with money to support service to mankind in the name of Allah. A century later, cash waqf becomes extremely popular all over Anatolia and the European province of the empire.

Cash waqf was firstly introduced in Ottoman era in Egypt. Professor Mannan then familiarized cash waqf in Bangladesh through Social Investment Bank Limited (SIBL). SIBL issues Cash Waqf Certificate to collect funds from rich people and distributes gains of the managed funds to poor people (Dian Masyita & Erie Febrian, 2004)

The concept of cash waqf according to Prof. M.A. Mannan, Waqf can be a source of cash. Waqafcan be in the donation in cash. This concept allows, at least two things. First, *waqif* do not necessarily need a large amount of money to buy the land. Waqfcan be given in units that are smaller, such as a certificate issued by waqf legal institution. Second, the form of the waqf could tangible current assets whose use is very flexible, so that the waqf property could be the financial capital deposited in banks or financial institutions.

The Development Strategy Model of Cash Waqf

Community economic development requires not only attention, but rather the policy of various circles. The government's policy very clear is required in order to push the pace of the national economy.

In Indonesia waqf development strategy is the most appropriate to develop waqf is productive waqf. Where alternative patterns of development of productive waqf according to Munir Sirodjul to do well include indirect investments or direct investments. Indirect investment can be done by:

- a. Submit waqf money collected to the investment management institutions to develop through investment projects.
- b. Saving cash waqf in Islamic financial institutions in the form of Islamic bonds, sukuk and other products.
- c. Waqf save money in the form of Islamic mutual funds, shares of sharia, and others.

As for the direct investments made by the model *Nadzir* endowments create a business or enterprise or enterprises to manage and develop the waqf property as buying palm oil plantations, making a house to rent, offices, hotels, apartments, flats, and others.

The specialized in the management of waqf money multiple patterns and formats management for *Nadzir* can through the model making team of investment management without collaborating with institutions *Nadzir* or other investment companies or cooperating and partnering with institutions *Nadzir* or other investment companies or banks or other entities (HanzKhasanah, 2003)

In practice, the development of productive waqf property consists of two patterns. The first, development of waqf for social activities such as education and health facilities. And second, waqf development that has economic value. The first form of the development of waqf typically higher priority by the management of waqf. To cover the huge costs beyond the capabilities of endowments, then the manager form amil zakat institutions.

While the development of waqf economic value apparently has not been socialized into waqf practice. However, some *Nadzir* have done that on agribusiness, trade, property, and industry. But the numbers are still limited. This is possible due to the development of economically productive waqfare faced with the issue of risk management (Anita and Ridwan, 2003)

Development Cash Waqf Model

1. Development model of BRI role against cash waqf system in Indonesia

In previous studies has been offered a role most suitable design of BRI from cash waqf system, which will be established as soon as the supporting, proposed National Act is approved by the House of Representatives. In the Islamic sosio-economic concept, there is a source of social fund that is economically and politically free of charge, namely cash waqf (*wakaf tunai*). In this concept, *Nadzir* (cash waqf fund manager)

collects the fund from *Waqif* (cash waqf payer) and invest the money in the real sector (mainly Small & Medium-sized Ventures) and in any *syariah*-based investment opportunities. *Nadzir* will then allocate all profits and returns gained from the investments to any poverty alleviation programs to enhance the quality of poor people's life.

BRI has shown an excellent track record in conducting microbanking and strong commitment to SMEs development, as well as to poverty alleviation program. Therefore, BRI is the most valuable choice and is expected to play main role in assisting *Nadzir* to manage the collected cash waqf fund and to distribute the returns to enhance the Poor's welfare in Indonesia.

2. MoU between by Bank Indonesia and DSN MUI, *Badan Amil Zakat (BAZ/BWI)* and Waqf Board Indonesia

Other studies, Bank Indonesia and DSN MUI, *Badan Amil Zakat (BAZ/BWI)* and Waqf Board Indonesia pressing strategic cooperation activities of community empowerment in poor to gain access to financial institutions, known as the inclusive finance. This encourages an inclusive financial elements of society who initially did not have access in financial institutions (Raditya, 2013)

This collaboration provides some positive impact, first, to strengthen the reference valid debtor information system. MoU between BI and Basnaz will create synergies debtor information. Second, the coordination of supply and demand for goods and services. Third, when social institutions have created manufacturers producing goods import substitution, will reduce the import dependence while participating maintain rupiah stability. Fourth, the program Baznas / LAZ and BWI / Waqf Institutions in the birth of 'players' new world of business, will add supply of the economy, have impact on the level of market prices more competitive and efficient. However, still adopt the conventional financial instruments. Therefore, the development model in cooperation with Bank Indonesia still can't be used as a reference in the development of cash waqf models for Poverty Alleviation and Strengthen financial inclusion in Indonesia.

Requirement for *Nadzir*

Nadzir invests the collected fund in various investment portfolios. *Nadzir* may (1) invest the fund in *syariah* (non interest) banking products of both domestic and overseas banks, (2) finance selected businesses, (3) establish new prospective businesses, or (4) finance small and medium scale enterprises (SMEs).

Nadzir is obliged to maintain the amount of fund in such a way that it does not go below the initial amount. Therefore, *Nadzir* not only should be highly capable, but also needs a financial institution, which has been proven to be experienced, highly capable and effective in helping SMEs development efforts, since such a microcredit program is considered as the most vital portfolio in the poverty alleviation program.

Dr. Muhammad Anwar Ibrahim in his paper titled “*Wakaf Dalam Syariat Islam (Waqf in Islamic Law)*” explains conditions that should be satisfied in managing cash waqf. They are as follows:

1. *Nadzir* is a person/entity that is assigned to manage waqf fund.
2. As a matter of fact, *waqif* has the right to determine person or institution that will manage his/her waqf fund. If a *waqif* does not appoint a *nadzir*, then *Kadi* (Islamic Judge) will do it for him/her. [Asy-Syarbini *op.cit* p. 396].
3. *Fiqh* experts determine flexible requirements for being a *Nadzir*. Fit and proper *nadzir* should be capable for managing waqf fund to be productive source of capital. If a *nadzir* cannot do his job properly, *Kadi* must replace him with someone else after explaining reasons for the replacement.
4. *Nadzir*'s responsibilities include:
Maintaining waqf asset, preparing waqf asset for rent, managing waqf fund, collecting waqf investment returns and distributing them to *al-mawquf 'alaih*. *Fiqh* expert can expand these authorities as needed.
5. *Nadzir*'s division of work. A *waqif* can appoint more than one *nadzir* to handle his/her waqf fund. If a *waqif* does so, each *nadzir* will conduct a more specific job. Asset maintenance, investment management, and investment return distribution will be carried out by different *nadzir*. If there are more than one *nadzir* for one job, a decision can only be made after necessary consultation among them. [Asy-Syarbini *op.cit*. hal 410-411].
6. Salary for *Nadzir*. *Waqif* may determine certain amount of money or percentage of waqf investment return as compensation for *nadzir*. A *nadzir* will not receive any compensation if he quits the job or gets fired. [*Ibid*].
7. A *Nadzir* cannot take any part of waqf fund. [*Ibid* hal 412].

Waqif's Requirement

Waqif is a person who donate some money as waqf by purchasing cash waqf certificate. The certificate can be bought in the name of family member, even if he/she is already dead. *Waqif* expects return of the managed fund to be assigned for certain purpose, e.g. public facility development, poor people rehabilitation, etc.

Waqif donates his/her money as waqf fund to *Mauquf'alaih* (a person who is entitled to get benefit from waqf fund) through *Nadzir* (a person/an institution that is in charge for managing waqf fund and distributing returns of waqf investment). Only gains of the invested waqf fund will be delivered to *Mauquf'alaih*. The principles keep being invested in potential investment opportunities. In relation to its role as waqf fund investment manager, *Nadzir* on behalf of Waqf Institution may allocate some waqf fund to finance SME's businesses on the basis of profit sharing system.

Initiation of new sources of fund for such a program is inevitable. In the Islamic socio-economic concept, there is a source of social fund that is economically and politically free of charge, namely cash waqf (*wakaf tunai*). In this concept, *Nadzir* (cash waqf fund manager) collects the fund from *Waqif* (cash waqf payer) and invest the money in the real

sector (mainly Small & Medium-sized Ventures) and in any *syariah*-based investment opportunities. Nadzir will then allocate all profits and returns gained from the investments to any poverty alleviation programs to enhance the quality of poor people’s life, such as free education and health service, cheap basic food, etc.

In the case of Indonesia, it seems the ideal is a decentralized system and the presence of Indonesian Waqf Board (BWI) established by the government as mandated by Law No. 41 of 2004 on Waqf. But waqf board set up by civil society are also allowed. This decentralized system allows the use of various forms of waqf can be directly implemented by civil society so that it becomes stronger. Conversely, if the management of waqf monopolized by the state, the civil society is weak and the country can be strong.

At the community level, the most fundamental problem is problem of poverty, either in a special sense, namely as reflected by the level of public revenues, as well as in a broad sense that includes aspects of health, education or the fulfillment of human rights in general. These problems can also be called as a matter of Muslims as well. But from the point of Islamic organizations, the issue of the matter is the responsibility of the Islamic movement. Therefore, Islamic organizations concerned as well as to access the resource waqf.

PROPOSE MODEL CASH WAQF BASED ON MICRO FINANCE FINANCIAL INCLUSION SCENARIO

Proposing a model of waqf to financial inclusion is described as follows:

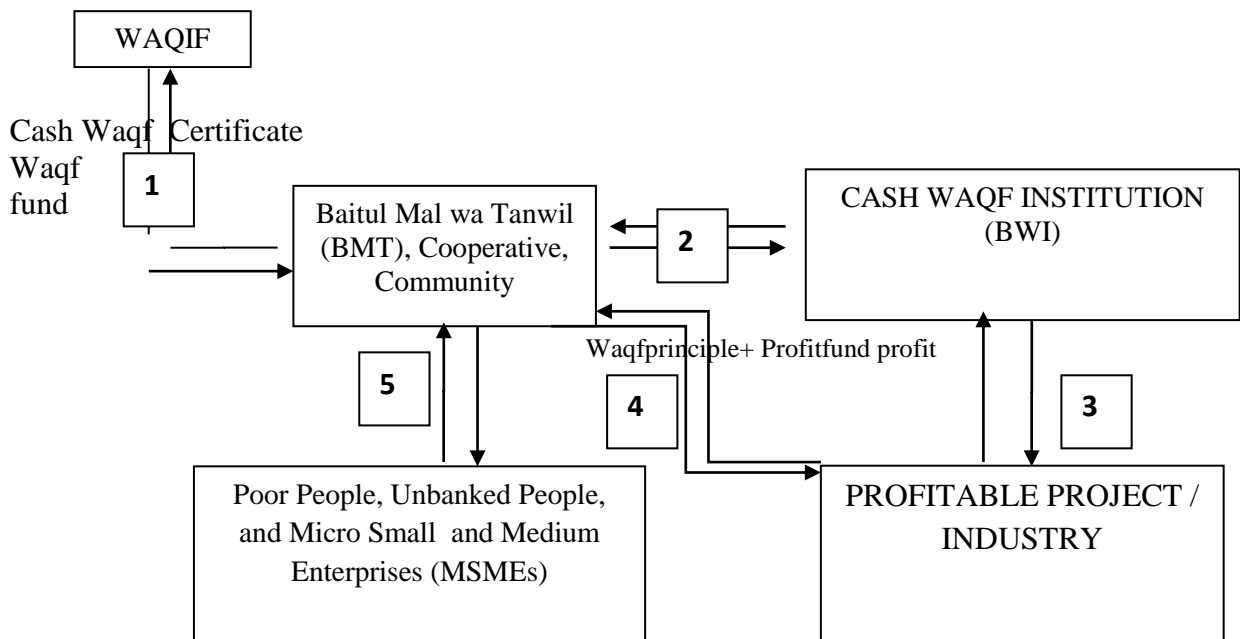


Fig. 2: Scenario of Cash Waqf – Islamic Micro Finance, Cooperatives, and Community Implementation in Indonesia in form of Financial Inclusion

The proposed models addressed to cover the weaknesses of existing models involving the Islamic banks. Weaknesses that arise when this is not optimal Islamic banks in the waqf of public gathering operations because business calculation. Besides, the incoming funds in Islamic banks seemed to belong to Islamic banks, so that the Indonesian Waqf Board (BWI) if you want to channel waqf for businesses and people have to make a profitable proposal, as business oriented. So that it impedes waqf in Indonesia. Therefore, the proposed mechanism as follows:

1. BMT proactively seeks the promotion of the collection of waqf from Waqif, and provide certificates waqaf to the donation.
2. Waqf accumulated submitted by the cooperation (MOU) with BWI in managing waqf. Waqaf by BWI management based on analysis and planning that has been created, namely for profitable projects and other purposes.
3. If the project is the financing, the principle and advantages submitted to BWI. If it is profitable projects implemented by the BWI project profit is returned to the BWI. And then submitted to BMT, Cooperatives and Community.
4. Some of these advantages are managed by BMT as a source of cheap funding to help MSMEs and poor people.
5. BMT make assistance and empowerment programs for target groups. BMT make the planning to the target people or MSMEs. The aid program should be preceded by an increase in capacity empowerment program. So expect the beneficiaries in the future is expected to be a group or share the gift economy that is able to pay the waqf and zakat, so waqf program can be sustained.

If the program is successful, the activities of waqf in Indonesia in the context of financial inclusion will work well in Poverty Alleviation issue

The Shortcoming of the Model.

The proposed model basically is still in general. Therefore, the next research needs to be follow up by another study to make sure that the proposed model is viable to be implemented in the society. Some aspects such as regulations, Acts, Laws, people support, and government vision should be addressed by doing some interview to several stakeholders from supply side or demand side. The next research therefore, should comprehensive method in order produce the better model.

Conclusion

Poverty alleviation program in Indonesia requires huge amount of fund that cannot be provided thoroughly by the government. Therefore, initiation of new sources of fund for such a program is inevitable. In the Islamic sosio-economic concept, there is a source of social fund that is economically and politically free of charge, namely cash waqf (*wakaf tunai*).

One of potential solutions to the necessity of sufficient fund for public needs is waqf fund, which results from people's donation. The larger the investment returns, the more fund can be allocated to poverty alleviation program.

In the case of Indonesia, it seems the ideal is a decentralized system. This decentralized system allows the use of various forms of waqf can be directly implemented by civil society so that it becomes stronger. Conversely, if the management of waqf monopolized by the state, the civil society is weak and the country can be strong. At the community level, the most fundamental problem is problem of poverty. But from the point of Islamic organizations, the issue of the matter is the responsibility of the Islamic movement. Therefore, Islamic organizations concerned as well as to access the resource waqf.

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