



# Cash Waqf Optimization as a Means of Social Financing for State Infrastructure Development

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## ABSTRACT

This study examines the potential for cash waqf as a source of social financing for infrastructure development. This research then builds the best model to optimize cash waqf using Sharia financial technology. This research will discuss some of the problems that hamper the development of cash waqf in Indonesia as well as providing some solutions to further enhance its development.

Keywords: Sharia Financial Technology, Social Financing, Waqf

## SARI PATI

*Studi ini mengkaji potensi wakaf tunai sebagai sumber pembiayaan sosial untuk pembangunan infrastruktur. Penelitian ini selanjutnya membangun model terbaik untuk mengoptimalkan wakaf tunai menggunakan teknologi keuangan Syariah. Penelitian ini akan membahas beberapa masalah yang menghambat pengembangan wakaf tunai di Indonesia di samping memberikan beberapa solusi untuk lebih meningkatkan perkembangannya.*

*Kata Kunci: Teknologi Keuangan Syariah, Pembiayaan Sosial, Wakaf*

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## INTRODUCTION

In carrying out development, the government must prepare sources of funds to finance national projects, especially to finance large government projects such as building basic infrastructure that includes educational facilities, health facilities, roads and so on. Relying on national income from taxes, non-tax revenues and grants is simply insufficient, and therefore, other sources of financing are needed. A preliminary analysis for the National Medium-Term Development Plan for 2019-2024 draft (RPJMN) from the National Planning Agency (BAPENAS) estimates that the total spending on infrastructure, education and health will reach IDR14,500 trillion. The largest part of this expenditure is for infrastructure development, amounting to IDR6,500 trillion, of which 2,500 will be financed by the State Budget (APBN) and IDR3,400 trillion will involve the private sector in financing the necessary infrastructure. As a result, there is a funding gap of IDR600 trillion which the government needs to consider in order to develop adequate infrastructure.

In comparison to public debt or foreign direct investment, waqf can be considered a superior source of financing because waqf funds are collected and distributed for the social benefit of society at a relatively low, even zero cost of capital. Public debt burdens the government in compensation for interest payments, while foreign investment requires all profits from business activities to be channeled to investors or capital owners. Waqf is an Islamic charitable financing instrument that has supported economic and social development of Muslim communities both in the past and today (Mahat, Jaafar, dan Rasool, 2015).

Waqf is oriented towards achieving the hereafter, while foreign investment or public debt is carried out for business and profit purposes. Waqf transfers ownership rights of certain perpetual assets from one person to official

Islamic institutions or the so-called *nadhirs*, to seek the pleasure of Allah SWT (Anshori, 2005: 14). The main characteristic of waqf is that when the waqf agreement is made, there will be a shift in ownership and benefits, from private ownership to ownership of Allah SWT and from personal benefits to social benefits (Abdillah, 2009). There are some differences between the Syafi'i and Hanafi scholars regarding transfer of ownership. It is argued, among the Shafi'i scholars, that if the assets that have been donated cannot be withdrawn or requested to be returned, whereas according to the view of the Hanafi scholars, the ownership of waqf assets can be withdrawn, or what is commonly referred to as temporary waqf under an agreed time frame. Apart from these differences, waqf is expected to provide broad benefits to society in a sustainable manner. The purpose of waqf is not only to collect asset donations but to make waqf assets a source of productive funds to meet the social interests of the Muslim community. Waqf has been a tool of Islamic philanthropy since the beginning of Islam and has been proven to be a social security instrument that has not only helped basic needs but also played a role in more productive empowerment in all sectors such as the education, social, economic and cultural sectors.

The role of waqf in funding economic development can be seen in various parts of the world. For instance, in Singapore, 170,000 Muslim workers earn \$2 - \$11.50 cash waqf (donations) each month through the Employee Provident Fund mechanism derived from the worker's contribution and a reduction in their salary. This mechanism manages to raise \$6 million every year. Apart from cash waqf, there are 100 types of waqf registered in Singapore. Waqf funds are distributed to the poor, mosques, madrasas, community welfare, funerals and other social activities. In the UK, the Islamic Relief Organization has introduced several forms of waqf to help Muslims around

the world including donations of clean water and sanitation, qurban, health facilities, endowments for orphans, emergency assistance and others. Among the recipients of these waqf projects are Palestinian children, victims of the Bosnian war, poor people in Bangladesh, Mali, and Sudan. In Kuwait, the Kuwait Awqaf Public Foundation (KAPF), which was founded in 1993, has specific objectives of managing endowments and developing waqf projects for various social interests in the Muslim community. The project carried out by KAPF has benefited the community. Among the projects are financial assistance for poor students and providing support for the Kuwait Autistic Center. Other charity activities carried out by KAPF include providing tools used to provide free drinks in public areas, sharing food for the poor, providing clothing for poor families, preparing food in the month of Ramadan for families in need and other similar activities (Ab Rahman, 2009 ).

In Indonesia, waqf is considered a traditional worship in three ways: building mosques, Islamic boarding schools and cemeteries. This is not deemed incorrect because Indonesian fiqh is dominated by the Syafi'iyah school which emphasizes the perpetual aspects of waqf property and its benefits, in this case land and buildings, to be used in activities that provide social benefits (Haq, 2013). This is in line with the Muslim hadith stating that waqf is a form of Jariyah or donation with a continuous flow of rewards (Al-Mubarakfury, 2013), so waqf assets and their benefits are expected to remain eternal. However, waqf is much broader than the explanations mentioned above. Waqf in its prime was an instrument capable of providing for social needs, such as education, health services, to infrastructure, which today we call it «public goods». During the time of Uthman, there were around 35,000 waqf assets including mosques, universities, orphanages, bridges, caravans, soup kitchens, roads, fountains and public piping systems (Haneef, 2018).

In addition, there are cash waqf that can be focused and managed for more productive use. Cash waqf has enormous potential but is not widely known. This results in the untapped potential and role of waqf which should be used as an instrument of public welfare. Indonesia, with the largest Muslim population in the world, should become a pilot country for optimal waqf management. Sifa (2016) argues that the management and development of cash waqf in Indonesia can be achieved through investing in Islamic financial institution products and/or other Islamic financial instruments. Cash Waqf provides many promising opportunities, as it can be allocated not only for infrastructure development but also for providing development opportunities, such as the development of education, health, sanitation, and various other social services. The collection, management and distribution of benefits can be more efficient and well controlled by the use of state-of-the-art technology. Hadi Ryandono and Hazami (2016) state that cash waqf managed professionally has more impact on improving the welfare of the community compared to waqf for immovable assets.

This study aims to apply Sharia Financial Technology (SFT) as a means of integrating solutions for capital requirements to finance infrastructure development. In particular, this research will develop cash waqf through Waqf Linked Sukuk and build the right mechanism to simplify the process of collecting, managing and controlling waqf funds.

## **BACKGROUND RESEARCH**

### **Management of Waqf in Indonesia**

There are three main stages of waqf management typically seen in Indonesia. First, the traditional stage when waqf is still seen as a pure form of worship in madhhab teaching and almost all objects of waqf are intended for physical infrastructure development purposes, such as mosques, prayer rooms, boarding schools,

cemeteries, and so on. Thus, the existence of waqf in this stage does not provide a wider social contribution because it is mainly for consumptive purposes. Second, the semi-professional stage, in which the conditions of waqf management are relatively the same as in the traditional period, but waqf management institutions (Nadhirs) have begun to develop a pattern of waqf empowerment productively even though it is not yet optimal. An example is incorporating strategic facilities for meetings, wedding receptions and other events in the construction of mosques such as the Sunda Kelapa mosque and the Pondok Indah mosque in Jakarta. Third, the professional stage in which waqf begins to be empowered by professionalism and geared towards productivity. Professionalism includes aspects of management, human resources, business partnership patterns, forms of waqf moving objects such as money, stocks, and other securities (Hanna, 2015).

#### **Classic Challenges Related to the Development of Waqf in Indonesia**

Numerous waqf assets are managed traditionally in a consumptive manner, thus, the potential of waqf as a solution to social and economic problems in society has not been fully optimized. Lack of in-depth knowledge about waqf and its derivative products, as well as traditional assumptions that consider waqf must be in the form of land and buildings, hinder the development of waqf in Indonesia. The potential of waqf will be fully unlocked if the management can ensure effectiveness and efficiency in operating the waqf fund. Waqf management institutions needs to make serious efforts and take smart measures in making policies based on the work program that has been outlined. During its development, there are many obstacles faced by the Indonesian Waqf Board (BWI). These problems include the lack of attention from government agencies and the public in disseminating and providing education on waqf, minimum support from

government and policy makers to develop waqf. BWI hopes that there will be cooperation from all parties, both government and society, to be able to disseminate the importance of waqf. The government and policy makers are the authorities who can influence the whole society using available resources. The Indonesian Ministry of Religious Affairs has estimated the potential for waqf for immovable property (land) and found that, to date, a total of 48,228.53 hectares of waqf land is spread across 357,526 locations and only 62.59% are certified lands used mostly for the construction of mosques.

#### **Waqf Linked Sukuk (SLW)**

There are continuous innovation efforts in the development of sukuk in Indonesia. The government, especially the Directorate of Islamic Finance at the Ministry of Finance since around 2009 until now has made its best efforts to innovate and develop waqf. There are many types of public sukuk circulating in the market, consisting of retail sukuk, hajj sukuk funds, savings sukuk, and others. In terms of sales, the government has issued global sukuk sold overseas and sukuk sold domestically. The goal of having these types of sukuk is to improve the government's portfolio quality in addition to educating the public about Islamic finance.

To date, many still see the banking industry as the only way to invest. However, in reality, there are many more alternatives for investment portfolio, one of which is sukuk. Waqf Linked Sukuk (SLW) is a bond issued by the government in which the funds raised from the sale of SLW are used by the government for productive projects. This type of sukuk was initiated by Bank Indonesia in collaboration with the Ministry of Finance, the Indonesian Waqf Board (BWI), and other relevant ministries. The profits from productive projects will be used for various needs in social communities, such as the development of public infrastructure in the fields of education, health and culture.

### **Sharia Financial Technology (SFT)**

According to the National Digital Research Center (NDRC), Financial Technology (FinTech) is a term commonly used to refer to innovations in financial services. FinTech itself is derived from the word finance and technology which refers to financial innovation with a touch of modern technology. The financial technology concept adopts technological developments that are integrated with the financial sector in banking financial institutions, so that it is expected to facilitate a more practical, safe and modern financial transaction processes. Digital-based financial services currently developing in Indonesia include payment channel systems, digital banking, online digital insurance, Peer to Peer (P2P) Lending, and crowdfunding (Siregar 2016). Romanova and Kudinska (2016) define FinTech as a modern technology-based software and business that provides financial services. FinTech companies are generally companies that provide financial services and solutions to customers such as mobile payments, money transfers, loans, fundraising and even asset management. Based on an analysis on FinTech development and business specificity, the comparative advantages of FinTech include: highly standardized and low cost financial services, internet-based and therefore less geographically concentrated, changing consumer behavior, lower regulation of financial services, relatively lower risk than conventional financial services/products where the risk of borrower's default and the risk of maturity will be even more reduced.

FinTech is recognized as one of the most important innovations in the financial industry and has grown rapidly, driven by rapid changes in economic activities, favorable regulations and more sophisticated information technology. According to Lee and Shin, (2018), FinTech promises a new ecosystem for the low-cost financial industry, improves the quality of financial services, and creates a more diverse

and stable financial landscape. There are five elements of the FinTech ecosystem, including: (1) FinTech Startups (payments, loans, crowdfunding, capital markets, and insurance companies); (2) Technology developers (e.g. big data analytics, cloud computing, cryptocurrency and social media developers); (3) Governments (e.g. financial regulators and legislative bodies); (4) Customers (e.g., individuals and organizations); and (5) traditional financial institutions (e.g. traditional banks, insurance companies, stock brokers and venture capitalists). FinTech in accordance with Bank Indonesia Regulation No. 19/12 / PBI / 2017 concerning the Application of Financial Technology can regulate financial activities in the form of payment systems and other financial services.

The challenges of the Sharia FinTech market according to Telkom Indonesia (2017) are: (1) Public awareness and knowledge of Islamic finance, especially Islamic FinTech, is still minimal; (2) The slow growth of the Islamic economy and its relatively small market share; (3) lack of qualified human resources in the sharia economy; (4) The synergy between fellow Islamic financial institutions and social institutions such as zakat and waqf institutions is still weak. Ryandono (2018) introduces a model to finance startup businesses by young entrepreneurs. This model uses e-waqf to collect waqf funds, manage and distribute them in the form of financing for various startups in need.

### **Blockchain Technology**

In optimizing cash waqf as a source of social financing for infrastructure development, the Financial Blockchain Platform can be an instrument for increasing the transparency of waqf management by waqf management institutions. In the financial sector, the presence of blockchain is one of the innovations in the Industrial Revolution 4.0 era that has received a warm welcome. Blockchain can be understood

as a technology that enables data storage and tracking through a distributed digital «ledger» system on hundreds to thousands of computers around the world (Dinar Standard, 2018). The implication of the presence of blockchain is that data from all activities in the community on the blockchain will be spread across the user's computer, so verification of activities (e.g. financial transactions) can be carried out spontaneously by all members of the community. Even financial transactions can be carried out without the need for both parties to know each other to transact digitally and directly (Tapscott and Tapscott, 2017).

#### METHOD

This study is a conceptual qualitative research that uses a descriptive approach. This study aims to describe Islamic Financial Technology (SFT) as a means of integrating capital solutions for financing infrastructure development, especially in the Waqf Linked Sukuk mechanism. This study uses documentation from several journals, books, and scientific articles related to topics other than in-depth interviews with several leading academics and practitioners.

#### RESULTS AND DISCUSSION

The Waqf Linked Sukuk (SLW) social financing model for infrastructure development involves many stakeholders. The first party is a government agency, in this case the Ministry of Finance, which will identify the type of infrastructure to be built, estimate costs and classify sources of funding. The second party are the Nadzhirs (waqf management institutions). The Nadzhirs are legal institutions that act as an intermediary between waqifs (donors or givers) and the government. The Nadzhirs raise funds from waqf and hand over funds to the government to finance planned projects. Third parties include the Indonesian Waqf Board (BWI), Bank Indonesia (BI) and the National Zakat Agency (BAZNAS). The roles of these parties include: (1) maintaining transparency and governance of

waqf funds through the application of waqf core principles and (2) providing a waqf management system. In addition, the third parties act as (3) partners in supporting the Nadzhirs and Zakat management institutions. These parties are also (4) Government partners in monitoring the benefits of waqf projects. These institutions also (5) provide education and public outreach related to waqf to the public.

The Waqf Linked Sukuk process in the form of cash waqf can be derived as follows: First, the Ministry of Finance announces the infrastructure project plan to the public and state the project details including the costs required, as well as selecting alternative sources of funding. The Ministry of Finance chose Sukuk (SBSN) as a source of funding. Second, the Ministry of Finance then makes an agreement or MoU with the National Waqf Board (BWI) to become the Nadhir of this project. BWI arranged a strategy to involve other Nadzhirs to raise waqf funds. Third, BWI engages other partnering Nadhir and Legal Sharia Financial Institutions Receiving Cash Waqf (LKS PWU) to disseminate the project and raise waqf funds. Fourth, partnering Nadzhirs receive cash waqf from waqifs or donors to develop infrastructure. The Cash Sukuk Scheme can be understood as follows as see in Figure 2:

1. Waqifs provide cash waqf to partnering Nadzhirs, including temporary and perpetual waqf.
2. Cash waqf is collected by BWI. BWI also collects cash waqf collected from various Nadzhirs.
3. BWI purchases Sukuk (SBSN) from the Ministry of Finance.
4. The Ministry of Finance receives cash waqf to finance and develop the necessary state infrastructure.
5. The Ministry of Finance issues a coupon payment to BWI.
6. BWI then distributes coupon payments to partnering Nadzhirs in accordance with the waqf fund agreement and contributions.

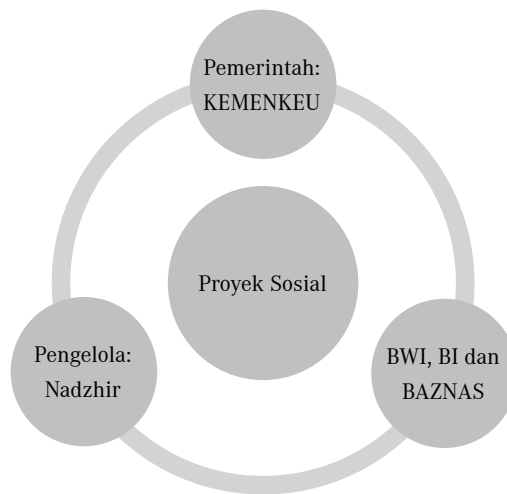


Figure 1. Parties Involved in SWL Social Funding for Infrastructure Development

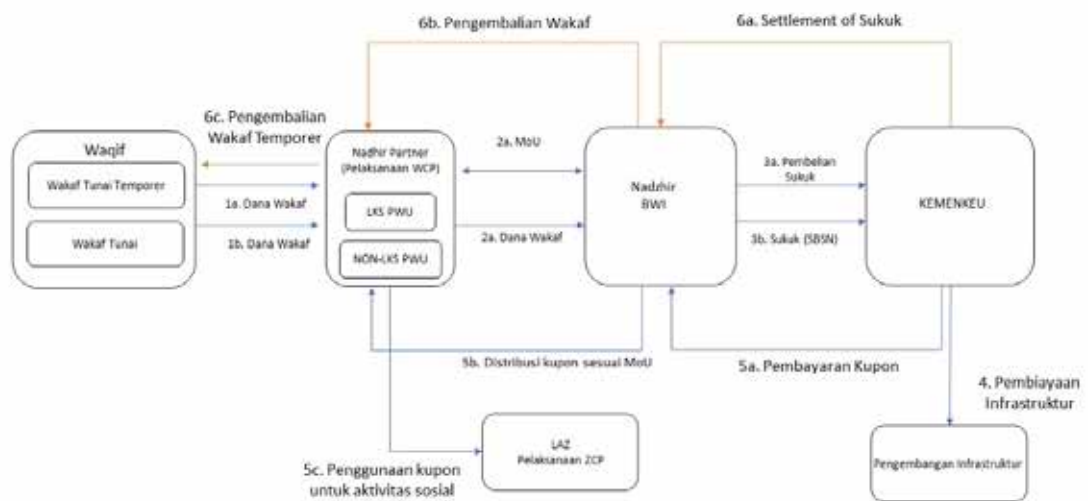


Figure 2. Waqf Linked Sukuk Scheme with SFT (BWI, 2019)

7. Partnering Nadhirs use coupon payments to finance several social projects.
8. At maturity, BWI accepts the Sukuk completion and uses it to return the waqf funds to partnering Nadhirs.
9. Funds received are distributed to waqifs who contribute to partial cash waqf.

The blockchain system will make productive waqf management more efficient and effective. If Nadzirs are connected to the Blockchain system, donations, transactions or other activities will be recorded using an encryption code/private code to guarantee transaction transparency. Furthermore, the use of the blockchain system can connect other Nadzirs in various parts of the world, making it possible for the exchange

of waqf from one country to another. This will be especially beneficial for countries that need a lot of development funds.

As an illustration, if BWI has uploaded an infrastructure project worth IDR15 billion on the blockchain system, it will generate a certain encryption code. Every blockchain system user has access to view the infrastructure project proposal. For instance, if a waqif donates a billion rupiah and the transaction is successful, the blockchain system will generate an encryption code for the waqif's transaction. The system will automatically notify users that there is still a funding requirement of IDR14 billion and that requirement will be recorded with a special encryption code as well so that all blockchain system users can find out about it. After a certain period, if there is another waqif donating IDR2 billion and the transaction is verified, all users in the system receive a special encryption code. The system will also generate codes for the remaining amount of funds to be completed. Information on each transaction and the amount payable is recorded with a specific encryption code and is listed in the information block. This information contains every detail about the transaction including the name of the waqif, the amount paid, the date and time of payment, the transaction method, and other related information. Everyone in the system can check the list of donors and the amount to be paid to cover needs. If the funds needed to build infrastructure are met, BWI will make transactions with the Ministry of Finance to purchase Sukuk using the blockchain platform like the transaction above and then send waqf funds to finance development projects. Coupon payments and settlement on the due date are made via the blockchain System. Every transaction is encrypted with a private code so everyone can review and check the honesty of every transaction. Thus, the security and confidentiality of transactions are guaranteed. This mechanism allows all users to have control

and solve many problems with confidentiality.

#### **SIMPULAN DAN SARAN**

Waqf is an Islamic charitable financing instrument that has supported economic and social development of Muslim communities. This paper discusses some of the problems hindering the development of cash waqf and highlights some solutions. The application of blockchain system to Waqf Linked Sukuk can be used to optimize the management of productive cash waqf. Every transaction in the system will be stored with an encryption code so that all stakeholders can check and control activities. The use of financial technology will reduce fears of misuse of waqf/endowments. As for recommendations, the government needs to prepare all supporting facilities in utilizing the blockchain system. The government should also begin to disseminate the importance of using advanced technology to increase the effectiveness and efficiency of waqf management. BWI needs to prepare some necessary regulatory recommendations regarding the use of cash waqf. Furthermore, in order for BWI to be well-prepared when the time comes, the Nadhirs need to learn the basic ideas about the blockchain system and familiarize themselves with the technology prepared by the government.

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