

SUKUK LINKED WAKAF (SLW) MODEL: OPTIMIZATION OF UNDERLYING WAKAF ASSETS THROUGH SUKUK ISSUANCE

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ABSTRACT

The potential for land waqf in Indonesia reaches 414,829 locations with an area of 55,259.87 hectares, then according to the Indonesian Waqf Agency (BWI) the potential for cash waqf in Indonesia reaches Rp. 180 trillion per year. However, most of the waqf have not been optimized properly so that the benefits have not been felt by the people. On the other hand, the deepening of Islamic financial products needs to be developed by providing new product variations. This paper provides a model of sharia financial product sukuk that connects it with waqf land. By using a musyarakah mutanaqisah (minimized musharaka) contract, waqf land can be empowered without having to sell its ownership and Nadzir will return to get waqf land and project assets after a certain period of time. Sukuk Linked Waqf provides a variety of new sharia investment products to investors with business motivations as well as social religious backgrounds. The methodology in this research uses literature study, quantitative analysis and qualitative analysis. The results show that Sukuk Linked Waqf can be a solution in optimizing waqf assets to be productive while contributing to the deepening of Islamic financial markets and real sector activities.

Keywords:Sukuk; productive; Waqf

INTRODUCTION

In Indonesia, the potential for Islamic social funds has not been fully applied optimally, this has made the development of the Islamic economy originating from social funds not significant. One of the potential Islamic social instruments is waqf. With details reaching a total of 414,829 locations with an area of 55,259.87 hectares, this can justify the enormous potential of waqf in Indonesia.

However, according to the Indonesian Waqf Board, only 10% of productive waqf land is utilized for the people. This problem occurs because the waqf management paradigm tends to be traditional. Therefore, a new paradigm is needed by utilizing waqf land commercially but still following the provisions of the Shari'a. this will contribute greatly to the welfare of the people if the waqf is managed productively.

Besides the not yet optimal management of waqf land in a productive way, the problem in developing the Islamic economy is a shallow understanding of Islamic financial products due to the limited role of commercial Islamic financial products and the market share of Islamic finance is still small. OJK reports that the market share (assets) of Islamic finance as a whole is around 6.65% of all national financial assets. Islamic financial products have a market share of more than 9.63%, including Islamic banking which has 6.18%, Islamic financing 4.33% and the highest is state sukuk of 17.72%.

Securities for the ownership of an asset or sukuk have become a hot issue on the national scene, especially in the context of state sukuk. The Ministry of Finance of the Republic of Indonesia has issued sukuk worth IDR 666.65 trillion from 2008 to May 2022. However, it is different from corporate sukuk, the value is still small even though it has experienced growth every year. The total accumulated value from 2017 to May 2022 amounted to IDR 25.573 trillion or only 3.84% of the total value of state sukuk

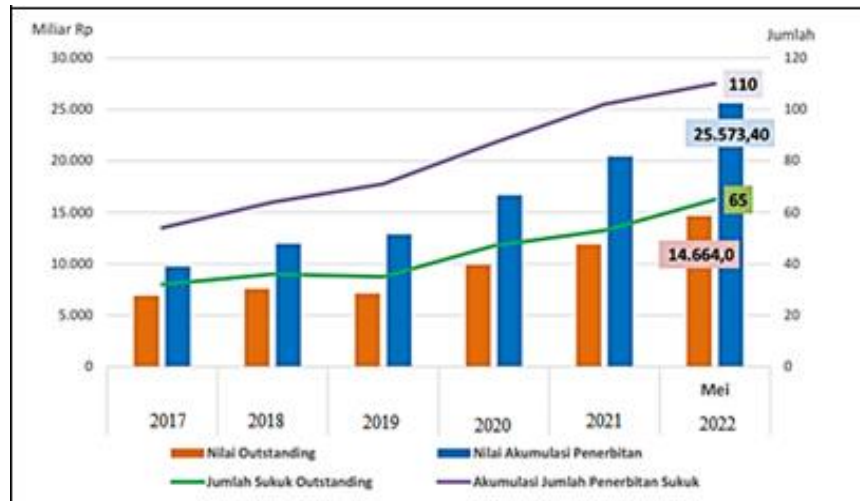


Figure 1.Development of Indonesian Corporate Sukuk 2022

Seeing the potential phenomena and the empirical data that has been presented, it is necessary to have a strategy to solve these two problems. Bank Indonesia (2022) has issued a proposed Wakaf Linked Sukuk model using an ijarah contract. This discourse is still in the discussion stage with related institutions, including the Indonesian Waqf Board, the Ministry of SOEs, the Ministry of Finance, and Bank Indonesia. The Waqf Linked Sukuk model has great potential to be used as a solution. thus the researcher will elaborate scientifically by using the musyarah mutanaqisah contract model. so that this research can emphasize the importance of applying the Sukuk Linked Wakaf model in order to optimize waqf land while at the same time deepening the Islamic financial market and real sector activity in Indonesia.

LITERATURE REVIEW

2.1. Waqf

The word "waqf" in Indonesian comes from the Arabic word al-waqf, which means to hold or stop. Another word that is often used synonymously with waqf is al-hubus (plural al-ahbash), which means something that is withheld or discontinued, meaning that it is retained in essence and the proceeds are utilized in the way of Allah. The word "waqf" in Islamic law has two meanings: The meaning of the verb, is the act of endowment, and the meaning of the noun, which is the object of the act of endowment (Syamsul, 2017). Productive waqf is waqf empowerment which is characterized by the main characteristics, namely: waqf management patterns must be integrated, nadzir welfare principles, transformation and responsibility principles (Anik, 2018). So that it can be said that productive waqf is waqf management in a professional manner to increase or increase the benefits of productive waqf.

Most Indonesian people still understand that waqf is only in the form of waqf of owned land as stipulated in Government Regulation Number 28 of 1997 concerning Waqf of Owned Land for more than 20 years (Fahmi, 2010), this gives the public perception and

understanding of waqf. However, the productive management of waqf still raises many questions and doubts among the public regarding the problems that arise from it and undermines the 'perpetuity' of waqf that is normally required. Such as what if waqf assets do not develop due to accumulation of funds, decreased value of money due to inflation, and loss of waqf assets due to mismanagement (Rozalinda, 2012). Empowerment of productive waqf land begins with financing the waqf land. The large number of waqf lands that cannot be utilized productively is caused by a lack of funds to empower or manage the waqf lands. Financing is an important factor in empowering waqf land to become productive waqf.

Financing is a mandatory muqaddimatul from the management or investment of waqf land. According to Monzer Kahf, previous scholars had thought of a land waqf financing model. This shows that financing is an important thing that nashir must think about before managing and developing waqf assets. (Munzir, 2018).

2.2. Waqf Sukuk

According to DSN-MUI Fatwa No.32/DSN-MUI/IX/2002: sharia securities are long-term securities based on sharia principles issued by issuers to sukuk holders in the form of profit/fee/margin sharing and repaying bond funds when they fall due tempo. Sukuk has quite high potential as an instrument to mobilize Islamic finance funds, because it is one of the long-term financing instruments and is an alternative to obtaining project investment funds. Meanwhile, waqf funds have the capacity to generate income as social activities of Islamic finance in the form of sukuk products. Islamic financial instruments and Islamic financial instruments are an important part of implementing national development.

In empowering the many unproductive waqf assets in Indonesia, waqf-based Sukuk is an innovation because in essence waqf should continue to grow and generate benefits without reducing the core of the waqf's initial assets. Two sukuk-based waqf contracts, 1) Waqf built on social contracts. 2) Sukuk built on ijarah contracts that have a business nature. In this research, it will be elaborated using the musyarakah mutanaqisah contract model.

2.3. Musyarakah Mutanaqisah

Musyarakah Mutanaqisah comes from the Musyarakah contract or cooperation between two parties, and Mutanaqisah comes from the Arabic Mutanaqisah which means to reduce gradually. So, musyarakah mutanaqisah (MMQ) is a cooperation agreement between two parties (usually the bank and the customer), in which the ownership of assets or capital of one party decreases due to a gradual purchase by the other party.

According to the OJK, musyarakah mutanaqisah is a product of sharia banking financing that is implemented based on the syirkah 'inan principle which explains that a reduction in the capital position (hishshah) of one of the requirements (partners) namely the Bank is caused by a gradual purchase or commercial transfer (naqlul hishshah bil 'iwad mutanaqisah) to another partner (partner), namely the customer.

RESEARCH METHODS

This study uses a literature study, a combination of quantitative analysis and qualitative analysis. The literature study includes information related to the potential of waqf land and an in-depth study of Islamic financial products. This information forms the basis for contract construction and operation of the Sukuk Linked Wakaf. while quantitative analysis, among others, is to calculate the potential issuance value and return of the sukuk with a mathematical model. In addition, the qualitative analysis includes the structure, cash flow and the role of the Sukuk Linked Waqf. The information is sourced from documented data.

RESULTS AND DISCUSSION

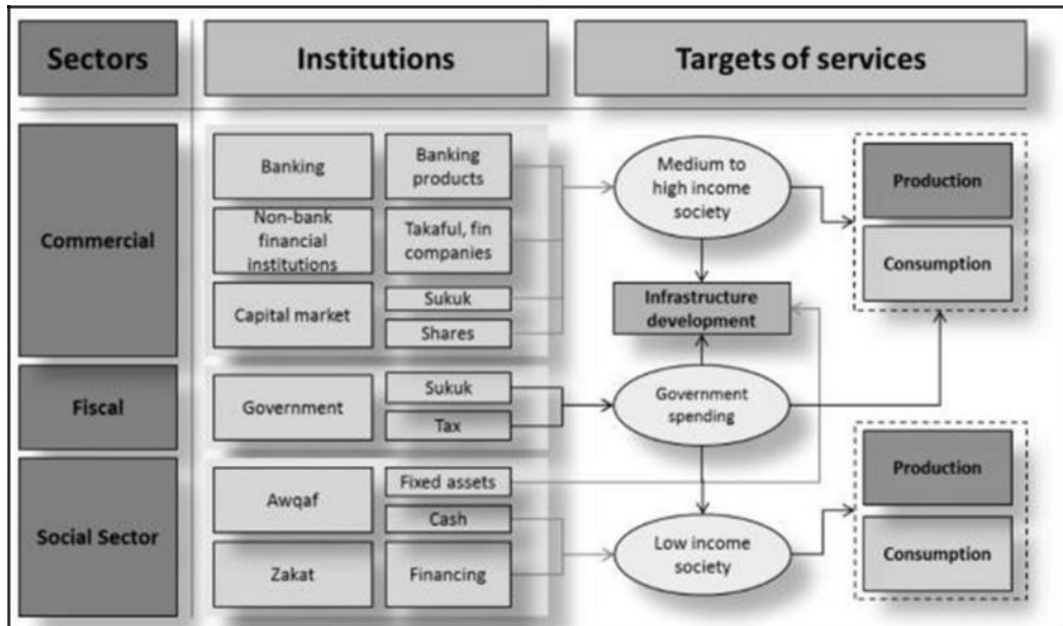


Figure 2.Position of Sukuk in the Islamic Financial System

The figure above describes the waqf system in an Islamic financial position that was built to serve all segments in society as depicted in Figure 2. The commercial sector consisting of Islamic banking, capital markets and takaful exists to increase the income of the commercial community in full through financial products and services . Funds that are used are channeled for various purposes related to production and consumption activities as well as government infrastructure development, in turn, funds can also be used through tax collection and also the issuance of government sukuk to finance expenses (general costs and infrastructure development).

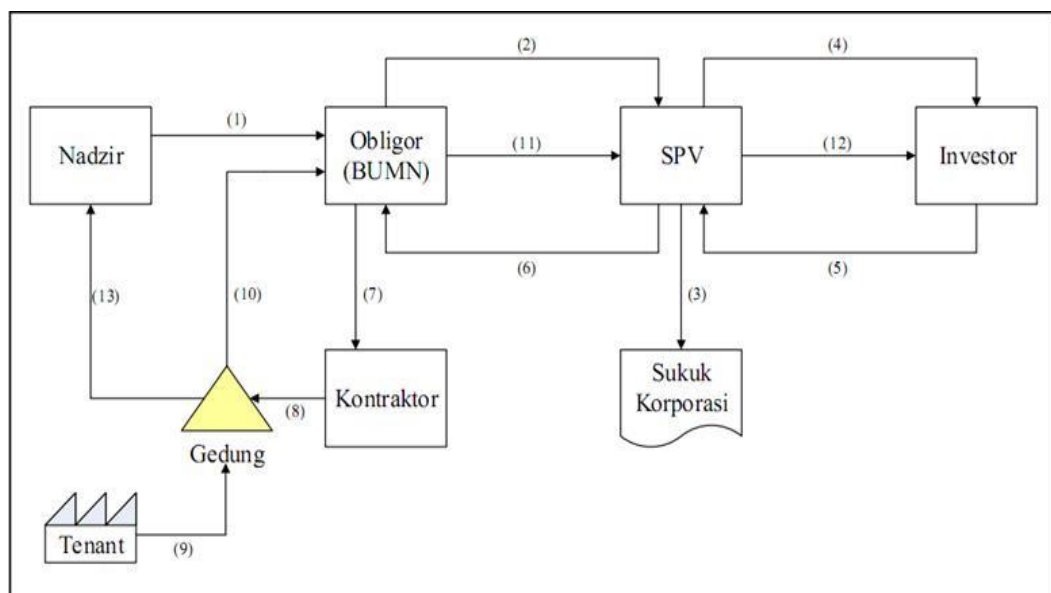


Figure 3.Waqf-Based Sukuk Scheme (Mutanaqisah Musyarakah Agreement)

Schematic Explanation:

1. *Nadzir* and SOEs entered into a long-term agreement to transfer the management of waqf land for a period of 35 years.
2. SOE submits project proposal to SPV.
3. SPV issues corporate bonds.
4. Investors buy Sukuk.
5. Investors make payments.
6. SPV hands over the collected investor funds to the obligor.
7. The obligor enters into a contract with a contractor.
8. The contractor constructs the building on waqf land.
9. Buildings are leased to tenants.
10. *return* from the building business is given to the obligor.
11. The obligor shares returns with the SPV.
12. SPV delivers returns to investors.
13. At the end of the maturity date (35 years), the waqf land and the building are returned to the *nadzir*.

The picture above illustrates the process of Sukuk Linked Waqf from the initial issuance of the sukuk to the return of the waqf land and buildings to the *nadzir*. The main purpose of issuing sukuk is to make waqf land productive. In the first stage, the *nadzir*, with supervision from the Indonesian Waqf Bank (BWI), entered into a long-term agreement with the State-Owned Enterprise (BUMN) to manage the waqf land so that it produces far more productive results. In the second stage, the BUMN submits a project proposal to the Special Purpose Vehicle (SPV) and then issues corporate sukuk with a *musyarakah mutanaqisah* (diminishing *musyarakah*) contract. Waqf land is used as the underlying asset for the issuance of the sukuk. This sukuk model uses a *musyarakah mutanaqisah* contract to avoid transferring ownership from the obligor to the investor. Assuming the use of an asset-backed sukuk type, this contract still separates the ownership of assets as capital between the obligor and the investor. Obligors (BUMN) still have the proportion of full ownership of waqf land, while investors have the proportion of ownership of buildings built with the investor's capital. This contract also aims to obtain full ownership of assets, both land and buildings by making installments to investors so that investor ownership of buildings decreases (diminishing) and within a specified period of time all assets will be fully owned by the obligor. while the investor has the proportion of ownership of the building built with the investor's capital. This contract also aims to obtain full ownership of assets, both land and buildings by making installments to investors so that investor ownership of buildings decreases (diminishing) and within a specified period of time all assets will be fully owned by the obligor. while the investor has the proportion of ownership of the building built with the investor's capital. This contract also aims to obtain full ownership of assets, both land and buildings by making installments to investors so that investor ownership of buildings decreases (diminishing) and within a specified period of time all assets will be fully owned by the obligor.

Then the *musyarakah* project returns are obtained from renting out buildings to tenants built on the waqf land. Furthermore, profit sharing is distributed to investors and obligors in accordance with the agreement at the beginning, while losses must be borne in accordance with the proportion of capital. With a building leasing project, the resulting risk is not too large and tends to generate a fixed and predictable return. The obligor periodically uses part of its profits to buy part of the investor's holdings. Until the end of maturity, the obligor can own all of the assets and can hand them back to the *nadzir*. After the waqf land and project assets are returned, the return generated from the waqf land will certainly be greater because it has been managed productively.

The flow of funds scheme (Musyarakah Mutanaqisah) above illustrates the cash transfer process from the initial proposal submission until the obligor obtains musyarakah project funds from investors.

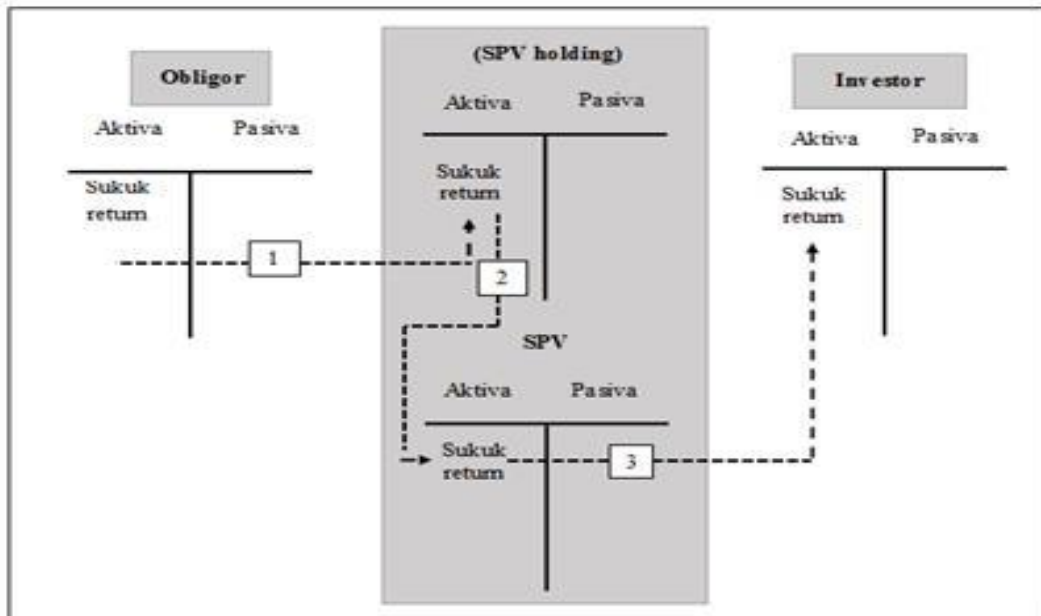


Figure 4. Flow Of Return Sukuk Linked Waqf

Schematic Explanation

1. The obligor pays the sukuk return in the form of sharing (musyarakah) to the holding.
2. The holding will forward the payment for the sukuk to the SPV.
3. SPV will pay the return to investors.

Flow of return scheme The above describes the process of transferring Wakaf Linked Sukuk returns from obligors obtained from the project to investors through the SPV.

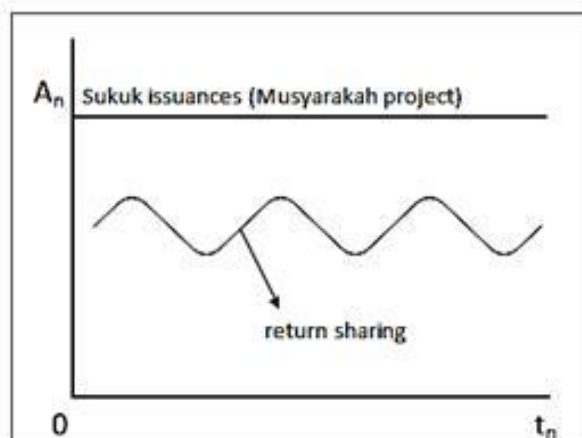


Figure 5. Wakaf Linked Sukuk Model (Mutanaqisah Musyarakah Agreement)

Assessment of the issuance of the maximum value of the sukuk is based on the estimation of the remaining funding requirements for the musyarakah project to be carried out or in other words the need for building construction funds. This value is shown in Figure 5, which is the upper limit in the graph (sukuk issuances), or at point A_n . The horizontal axis shows the unit of time or period for the distribution of the resulting returns.

The return sharing curve shows a fluctuating cycle over the uncertainty of the benefits of a musyarakah project so that returns cannot be promised with certainty. However, taking into account the responsibility of maintaining the value of waqf land, the project carried out must have a small risk. Therefore, in the Wakaf Linked Sukuk model, the main project is leasing a building with an ijarah contract. The resulting return will be distributed to obligors and investors according to the initial agreement.

Payment of compensation fluctuates according to investment returns based on building leases to tenants. By using an ijarah lease contract, it is likely that the returns paid will be constant and decrease according to the portion of funds in the asset (diminishing musyarakah). The illustration can be seen in figure 5 of the return sharing curve.

In addition to aiming at productive waqf land, the Sukuk Linked Waqf model also contributes to the deepening of Islamic financial markets and real sector activity (Figure 6). This model provides new product alternatives for investors by offering business and social religious motivations. This certainly expands the segmentation of new investors, especially in the sukuk market, the total value of the sukuk has increased with the increase in the issuance of corporate sukuk which is currently still low.

New economic activities emerge on the construction of buildings on waqf land which is a real form of economic development. The positive impacts include increasing employment, increasing total aggregate income, and increasing aggregate consumption. This is certainly a stimulus for economic growth, so that the country's socio-economic welfare is realized. Figure 6 below illustrates the role of Wakaf Linked Sukuk for the Islamic economy.

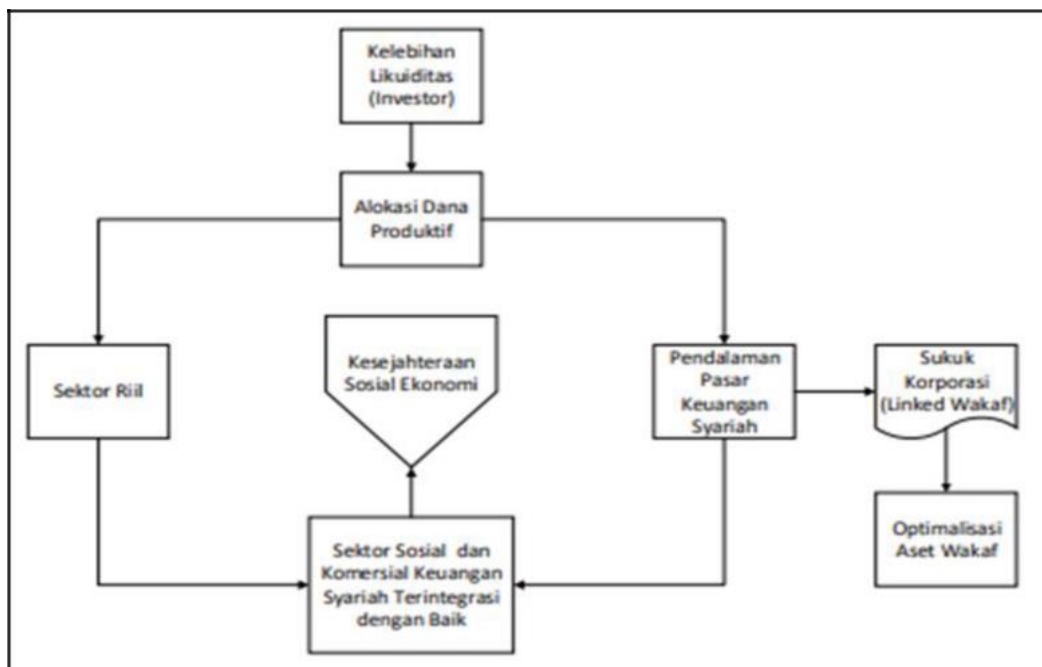


Figure 7.Scheme of the Role of Waqf Linked Sukuk in the Sharia Economy

CONCLUSIONS

Optimizing the waqf underlying assets through the issuance of sukuk provides great benefits in the development of the Islamic economy. This Waqf Linked Sukuk model can integrate social and Islamic financial sectors. Waqf land which has not been productive so far can be further optimized so that it can provide greater benefits to the people. On the other hand, the Sukuk Linked Waqf model can contribute to creating new real sector activities as well as being an alternative to new Islamic financial products that can deepen the Islamic financial market. so that its implementation requires cooperation between government regulators and the government. The Indonesian Waqf Agency, the Ministry of SOEs, the Ministry of Finance, and Bank Indonesia and all parties involved must be able to collaborate to realize the proposed Wakaf Linked Sukuk model for the benefit of the people.

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