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The Role of Cash Waqf Linked Sukuk for Education Program and Poverty Alleviation in Indonesia



سازمان بورس و اوراق بهادار
SECURITIES & EXCHANGE ORGANIZATION

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Developing Islamic Capital Markets to Converge the Ummah

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Short Profile

EDUCATION

- S3 - Institute of Islamic Banking and Finance (IiBF), International Islamic University Malaysia - Ph.D of Islamic Banking and Finance (Scholarship from Islamic Development Bank (IDB))
- S2 - International Islamic University Malaysia - Master of Science in Islamic Finance - Scholarship from University and Dompot Dhuafa
- S2 Institute of Islamic Banking and Finance (IiBF), International Islamic University Malaysia- Postgraduate in Islamic Banking and Finance - Scholarship from Government of Indonesia
- S1 - Al-Azhar University Cairo-Egypt - Shariah (Specialized on Islamic law of Economic and Banking) - Scholarship from Al Azhar University

WORK EXPERIENCE

Bank Mega Syariah - Indonesia

- 2022 - 2023, SVP - Head of Compliance Division

Saudi National Bank – Saudi Arabia & PwC

- 2022. Islamic Banking Advisor

Badan Pengelola Keuangan Haji (BPKH) - Indonesia

- 2022, Advisor, Investor Relations for Middle-East

PT. Telkom Indonesia Tbk - Indonesia

- 2021-2022, Advisor, Investor Relations for Middle-East, South Asia and Australia

Alizz Islamic Bank - Oman

- 2020-2021, Head of Shariah

Oman Arab Bank - Oman

- 2019-2020, Head of Shariah
- 2015-2018, Head of Shariah Audit and Shariah Compliance

Others: Third Bridge UK, USA, and UAE, PT Takaful Indonesia, Bank Negara Malaysia, Kuwait Finance House, LPPI, Zakirah Group, PT. Bahana Artha Ventura

Lecturing Experience

- Prof. Dr. Uhamka Muhammadiyah University
- Padjajaran University - Indonesia
- Sultan Qaboos University, Oman
- Trisakti University – Indonesia
- Al Azhar University – Indonesia
- Universitas Indonesia - Indonesia



Introduction

The main objective of this paper is proposing the three important elements in Islamic finance instrument which are **sukuk, waqf and Islamic financing** by collaborating three important institutions which **are government, waqf Institutions such as Badan Wakaf Indonesia (Indonesia Waqf Board) and Islamic Bank.**

The collaboration of these institutions will become a strategy to resolve one of country issues such as poverty alleviation by providing education program for all and build better traditional market place with low rental rate compare to other traditional market. The instrument called Cash Waqf Link Sukuk (CWLS) structure for Education Program and Poverty Alleviation in Indonesia.



Sukuk Project

Indonesia sovereign Sukuk has already able to provide financing to 3,447 projects in Indonesia in 2021. These projects including:

- a. The railway network, encompassing the South Java Railway with its double track, Trans Sumatra, and Trans Sulawesi (Parepare-Makassar) train lines.
- b. Building roads and bridges across many provinces, like as the Balang Island bridge to enable access across Kalimantan and the Youtefa bridge in Jayapura.
- c. Building a number of airports in a number of provinces to promote connectivity and ease access between Indonesian regions.
- d. Construct water resource infrastructure, such as groundwater supply and management systems, irrigation canals, and dams.
- e. Building lecture halls and lab spaces, among other educational facilities, at different postsecondary institutions.
- f. Establishing technological and scientific infrastructure across several national research institutes.



Research Methods

The research employs a qualitative descriptive research approach in order to perform an exploratory investigation of the literature pertaining to the CWLS idea and structure in this research.

The study used secondary data for its data collection. Secondary data about **Sukuk, Waqf, and Islamic finance** is derived from literature in the form of scientific journal, published articles and regulatory report.



Research Discussion

3.1 The Development of Sukuk, Waqf and Islamic Bank in Indonesia

The development of Islamic finance industry from time to time still promising in Indonesia and many part of the world despite many challenges and uncertainties. In Indonesia, based on data from the Indonesia Financial Services Authority (OJK) total Islamic Finance Asset in Indonesia as of June 2023 reach Rp 2.450 trillion (USD 163,03 bio) (exclude Islamic Stock).

While Islamic banking industry has the largest contributor, the total asset of Islamic banking Industry is Rp 822,26 trillion (USD 54 bio), increase almost 19% compare to previous year amounting Rp 693,8 trillion (OJK, 2023).

Table 1. Islamic Finance Asset 2023 (OJK, 2023)

Industry	Total Asset				Market Share (%)
	(in IDR and USD)				
	National	National	Sharia (Islamic)	Sharia (Islamic)	
	Rp T	USD Bn	Rp T	USD Bn	
Banking	11.258,65	749,28	822,53	54,74	7,31%
Institutions Non-Bank	3.209,10	213,57	157,60	10,49	4,91%
Capital Market	7.923,13	527,29	1470,42	97,86	18,56%
Total	22.390,88	1.490,14	2.450,55	163,09	10,94%



Research Discussion

3.1 The Development of Sukuk, Waqf and Islamic Bank in Indonesia

- From Sukuk issuance, there are 221 series corporate sukuk issued through public offerings that are outstanding as of December 2022.
- Within these series, the ijarah contract, worth IDR 18.17 trillion, is used in the majority contract of sukuk issuance (123 series, or 55.66%), mudharabah contracts, worth IDR 22.76 trillion, are used in 90 series (40.72%) of sukuk issuance, and wakalah contracts, worth IDR 1.56 trillion, are used in 8 series (3.62%) of sukuk issuance (OJK, 2022).

Table 2. Total Sukuk Issuance in Indonesia (OJK, 2022)

Sukuk Outstanding	2018	2019	2020	2021	December 2022
Total Sukuk Corporate Issuance	99	143	162	189	221
▲ Total Corporate Sukuk	25,32%	44,44%	13,29%	16,67%	16,93%
Corporate Sukuk Amount (Rp trillion)	21,3	29,83	30,35	34,77	42,50
▲ Corporate Sukuk	35,32%	40,04%	1,76%	14,54%	22,24%
Total Sovereign Sukuk Issuance	65	67	68	69	78
▲ Total Sovereign Sukuk	16,07%	3,08%	1,49%	1,47%	13,04%
Sovereign Sukuk Amount (Rp trillion)	645,05	740,62	971,5	1.157,06	1.344,35
▲ Value of Sovereign Sukuk	16,95%	14,82%	31,17%	19,10%	16,19%

CASH WAQF LINKED SUKUK ISSUANCE FROM 2020-2023

Description	SW001	SWR001	SWR002	SWR003	SWR004*
Issuance Time	March 2020	November 2020	June 2021	July 2022	August 2023
Nominal of Issuance	IDR50.849 billion	IDR14.912 billion	IDR24.141 billion	IDR 38.25 billion (USD 2.39 mio)	IDR 112.56 billion (USD 7,04 mio)
Trading Terms	Non-tradable	Non-tradable	Non-tradable	Non-tradable	Non-tradable
Structure	<i>Wakala</i>	<i>Wakala</i>	<i>Wakala</i>	<i>Wakala</i>	<i>Wakala</i>
Yield	6.15%	5.5% p.a	5.57% p.a.	5.05% p.a	5.85%
Coupon Rates p.a	5.00%	5.5%	5.57%	5.05% p.a	5.85%
Tenor	5 Years	2 Years	2 Years	2 Years	2 Years
Number of Waqif	-	1,041	591	688	709
Offering Method	Private placement	Book building	Book building	Book building	Book building

Cash Waqf Linked Sukuk in Indonesia

- Sukuk is one of the government financing tools that the Indonesian government carefully develops.
- Following the issuance and implementation of Act No. 21 year 2008 on sukuk in 2008, the government began issuing Fix Rate (IFR) Sukuk.
- A year later, in 2009, the government completed issuing sovereign sukuk on the domestic Islamic capital market with the issuing of retail Sukuk, Global Sukuk (SNI), and Pilgrimage Sukuk (SDHI) (Ismal et al., 2015).
- Bank Indonesia proposed a new transformation structure through Ismal (2015) from waqf linked Sukuk into Cash waqf linked sukuk (CWLS) in order to improve the previous model.
- The Governor ultimately presented CWLS during the 2018 World Bank and International Monetary Fund (IMF) Annual Meetings, which were held from October 12–14 in Nusa Dua, Bali.
- Then, a memorandum of understanding (MoU) for the development of CWLS was signed on November 1, 2018, by the Ministry of Religious Affairs, the Indonesian Waqf Board (BWI), the Central Bank of Indonesia (BI), and the Ministry of Finance (MoF). The issuance of Cash Waqf Linked Sukuk will be guaranteed by the State Budget (APBN) Act and the Islamic sovereign Sukuk (SBSN) Act

Cash Waqf Linked Sukuk in Indonesia

- CWLS was finally first issued in March 2020 with series SW001 at a value of IDR 50.8 billion (MoF, 2020b). Under its role as a nazhir (waqf manager), the Indonesian Waqf Agency (BWI) places cash waqf funds via the private placement technique. The coupon from sukuk will be transferred to BWI which will be utilized for medical equipment purchases and renovations to help construct a new centre at the Wakif Achmad Wardi Hospital in Serang, Banten Province.
- The coupon from sukuk will support 2,513 impoverished patients over the course of five years by purchasing ambulances and offering free cataract surgery. The coupons are paid on a monthly basis by the government.

Table 3. Cash Waqf Linked Sukuk Issuance from 2020-2023

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BADAN
WAKAF
INDONESIA

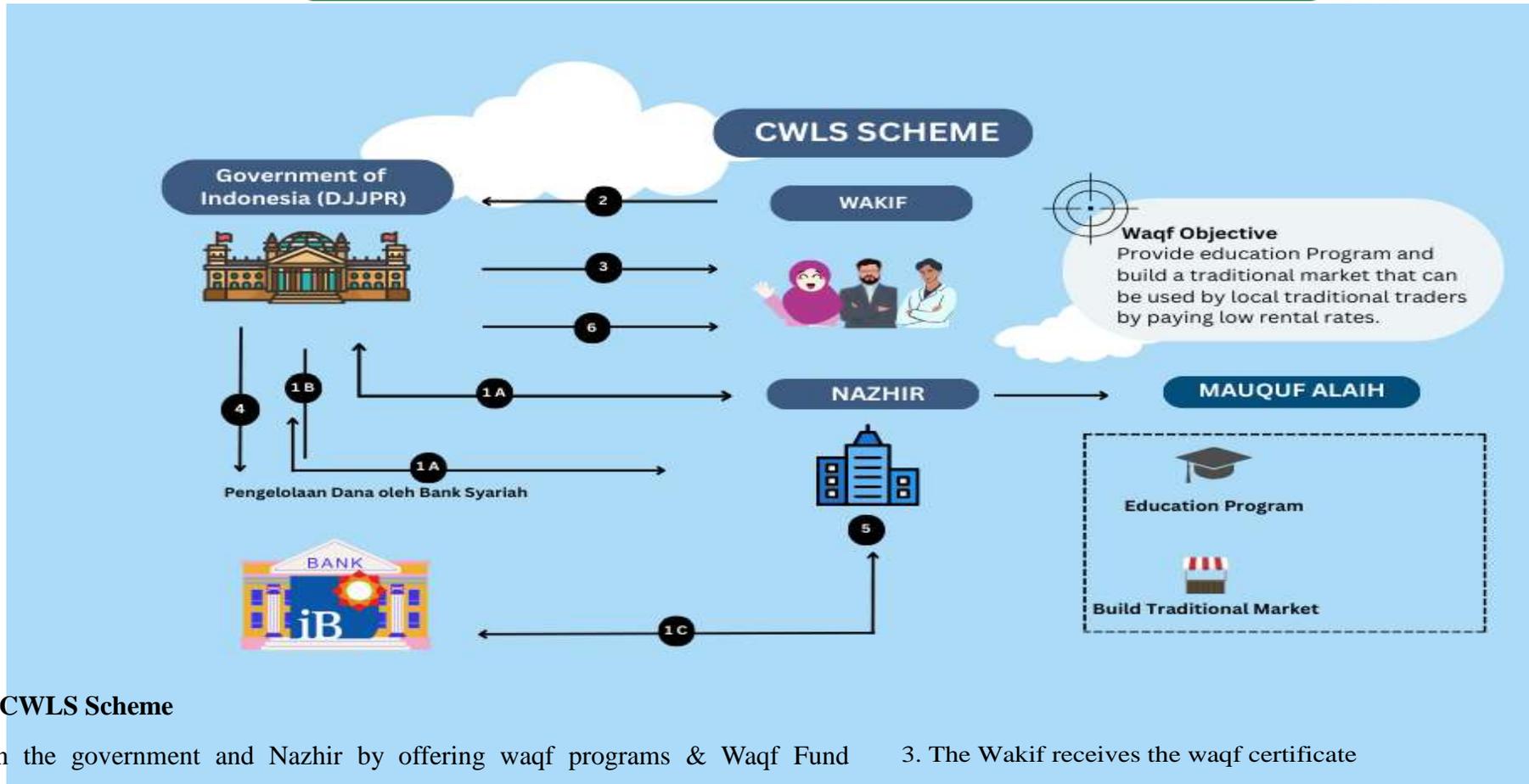


djppr

THE ROLE OF CASH WAQF LINKED SUKUK FOR EDUCATION PROGRAM AND POVERTY ALLEVIATION

This research shows that the proceeds from CWLS is proven it may use for providing education program to Indonesian students in universities locally and abroad such as 1000 doctoral program. It is expected that after graduation, the students can contribute in developing economic of the country as well as decrease the national poverty level. The students may waqf one of his 7 days for people empowerment and educating the needy.

The second one is for poverty alleviation, the government may build through nazhir (BWI) a traditional market that can be used by local traditional traders by paying low rental rates, if the local traditional traders need financing for its business, the Islamic bank can finance them with low rate of financing.



Process Flow for CWLS Scheme

- 1a. MoU between the government and Nazhir by offering waqf programs & Waqf Fund Management
- 1b. The government will invite Islamic Banks to join in the scheme by providing financing for education program, traditional market trader and build the traditional markets
- 1c. Islamic Bank will finance the education program, traditional market trader and build the traditional markets project through nazhir.
2. Wakif donor waqf by purchasing a waqf sukuk certificate

3. The Wakif receives the waqf certificate

4. Nazhir will manage the fund for education program, financing the traditional market trader and build the traditional markets

5. The government will pay the monthly coupon/profit that are used for installment payments to the Islamic Bank.

6. Islamic Bank provides notification to nazhir that the installments have been Paid.

Table 4. Features of CWLS

Features of CWLS	
The value of Coupon from Sukuk	the waqf amount
The Coupon amount will be transferred to Nazhir (BWI)	for the benefit of mauquf alaih
Minimum Sukuk Investment	IDR 1 million
Maximum Sukuk Investment	As per the prospectus of the waqf project
Minimum tenor of CWLS	3 years
Tradability	Sukuk cannot be tradable

Table 5. Coupon from Sukuk and waqf project financing calculation

Coupon from Sukuk Calculation								
Month	1	2	3	4	5	6	36
Sukuk Proceed	IDR 120 bio							
Coupon amount	IDR 650 mio							
Sukuk Coupon Rate	6.5%							
Financing Installment from Islamic Bank								
Financing amount	IDR 20 bio							
Installment Amount	IDR 645.3 mio							
Financing Rate	10%							

Conclusion

- Indonesia becomes the world's first global and retail sovereign Cash Waqf Linked Sukuk issuer for the purpose of empowerment of low-income society, poverty alleviation and raise the educational attainment of Indonesian citizens.
- It is the first combined instrument between waqf as social finance, sovereign sukuk by government of Indonesia and financing from Islamic bank as commercial finance that collaborate with social finance in order to take initiative as innovative instruments to finance various social projects and programs.
- We believe that by promoting education, the nation will able to lower the poverty rate. Because it is expected that after graduation, the students can contribute in developing economic of the country as well as decrease the national poverty level. The students may waqf one of his 7 days for people empowerment and educating the needy.



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