

Cash *Waqf* Link Sukuk Model For Sustainable Agriculture Development

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Abstract

This research aims to determine the potential of Cash Waqf Linked Sukuk for the development of the sustainable agricultural sector. This research uses an exploratory qualitative method with library research. This type of exploratory qualitative research tries to explore the potential of cash waqf linked sukuk on sustainable agricultural financing. This research provides a model for optimizing the receipt of Cash Waqf Link Sukuk funds through Go-Waqf innovation. We are also building a model for utilizing CWLS returns for the development of the sustainable agricultural sector.

Keyword: Waqf, Agriculture, Sukuk, Sustainability.

Introduction

The agricultural sector has important role in improving the Indonesian economy. Agriculture sector ranks 5th highest in Indonesia's GDP growth according to business field. Research by the Central Statistics Agency (BPS) shows that in the 2023 agricultural census, the number of farmers is 45.04 million. This number is considered to have increased compared to the number of farmers in 2022 which will be at 40.64 million people. This data shows that the agricultural sector is growing positively in terms of increasing employment.

Unfortunately, BPS data shows a decrease in harvest yields, especially for rice commodities. Rice production in Indonesia from January to December 2023 reached 53.98 million tons, a decrease of 767.98 thousand tons (1.40%) compared to 2022 which was 54.75 million tons. In 2023, the highest rice production will be in March, namely 8.92 million tons, while the lowest production will occur in December, namely around 1.97 million tons.

The decline in rice production is due to extreme drought or El Nino in 2023. This drought has a direct impact on agricultural yields, which causes crop yields to be less than optimal from the previous period (Salsadilla & Hariyono, 2022). This decline also caused by an increase in production costs caused by the scarcity of fertilizers (Maulia et al. 2023). The scarcity occurs due to the mismatch between the farmers' demand for subsidized fertilizers and the subsidized fertilizer assistance

provided by the government, so that this scarcity causes them to have to buy expensive non-subsidized fertilizers (Maulia et al. 2023).

The decline in rice production is further exacerbated by the decline of agricultural land due to land conversion. Based on data from the Central Statistics Agency (BPS), the realization of the rice harvest area from January to December 2023 reached around 10.21 million hectares or decreased by 238.97 thousand hectares (2.29%) compared to 2022 of 10.45 million hectares. The rice harvest area in March 2023 was 1.65 million hectares, while in March 2022 reached 1.76 million hectares.

In overcoming these problems, policies are needed to build the sustainability of the agricultural sector. The government has made an RPJMN (National Middle-Term Development Plan) for 2020 to 2024, especially in the agricultural sector. Unfortunately, the needs of farmers are still not fully met. The problem of expensive fertilizer prices is one of the challenges for farmers to be able to maximize their agricultural yields. Utilizing non-government funds can be used to overcome this problem. This step can be done by coordinating between related institutions to obtain sustainable agricultural funds.

Indonesia has a high level of generosity, so that the use of Islamic philanthropy instruments can be used as an alternative to financing (Hendrawan, 2020). The 2023 World Giving Index *report* revealed that Indonesia achieved an index score of 68 points. The report evaluates three aspects: helping others, money donation and participating in *volunteer time*. Indonesia is in second place in the aspect of donated *money* at 82%. This shows that Indonesia has a high level of generosity.

Indonesia is Muslim majority country. In Islam, there are many teachings for philanthropic activities. This teaching can be found in *Zakah*, *Waqf* and *Infq*. Among *Islamic philanthropic instruments*, money waqf is the most likely to be used for the development of the sustainable agricultural sector. In contrast to zakat where the allocation of funds is allocated to *mustahiq*, waqf can be used for various forms of public interest.

Currently, waqf management has undergone rapid innovation, where waqf can be purchased on Sukuk instruments. This sukuk is projected to be able to become an alternative source of funding that can help solve sustainability problems in the agricultural sector. Therefore, we are interested in investigating the potential of CWLS management for the development of the sustainable agricultural sector.

Literature Review

Research on Cash Waqf Linked Sukuk (CWLS) management for the agricultural sector is still very limited. Mufidah Research (2021) explained that CWLS allows the government to obtain waqf-based financing where sukuk yields can be used for various public economic interests such as road repairs, additional pest control land, construction of meeting halls, procurement of renewable energy facilities and the construction of MSME centers.

Research by Salam (2023) show *that the green Cash Waqf Linked Sukuk* (CWLS) model can help the government to finance various government projects, including sustainable agriculture. The use of CWLS is an innovation in fiscal finance as well as commercial and social finance. Moreover, these findings explain that the CWLS model also supports the agricultural sector with the aim of improving the welfare of local farmers and ensuring food security for the people of Indonesia.

Hendrawan (2020) revealed that the use of waqf funds through CWLS model has the potential to solve the problem of funding sources in the medium term. However, this potential is still not well optimized. The benefits of Cash Waqf Linked Sukuk are intended for national development, Waqf investment through CWLS supports the sustainability of national development, socio-economic equity through infrastructure development, education, health facilities etc.

Cash Waqf Linked Sukuk (CWLS)

Cash Waqf Linked Sukuk is an innovation in money waqf where the funds are invested in state sukuk so that it is safe and does not have the risk of default (Nisa, 2021). Cash Waqf Linked Sukuk was initiated by Badan Waqf Indonesia (BWI) in collaboration with the Ministry of Finance and Bank Indonesia as a facilitator.

The government issued the "SW" series of government sukuk specifically to support the CWLS program. This CWLS "SW" sukuk has several features such as: 1) non-tradable, 2) tenor <5 years, 3) as an underlying asset is government owned asset, 4) payment of sukuk rewards on a discounted basis and periodic rate of return, 5) used to fund state budget projects, including project funding in agriculture, 6) *Mauquf Alayih* benefits from coupons or yields from waqf money placed in the "SW" series of State Sukuk.

In its operation, Cash Waqf Linked Sukuk involves five stakeholders, namely Bank Indonesia (BI) as an accelerator in encouraging the implementation of CWLS and Custodian Banks, the Indonesia Waqf Agency (BWI) as a regulator, leader and *nazhir* who manages CWLS, the Ministry of Finance as an *SBSN issuer* and fund manager in the real sector, productive waqf *nazhir* as BWI's partner that collects waqf funds and Sharia Bank as a Sharia Financial Institution that receive waqf in the form of money (LKS-PWU) and Bank Waqf Indonesia which operates.

According to Rahayu & Agustianto (2020) in the management of waqf funds in accordance with sharia principles, CWLS is used to finance economic and social projects to boost the national economy, including:

1. Encouraging the growth of Islamic banking through the distribution of CWLS assistance programs, one of which is economic empowerment for MSMEs in waqf houses.
2. Financing productive assets such as the construction of incubators, business development, and opening new jobs in the real sector. So that both natural resources and human resources can be maximized in their potential.
3. Supporting social programs through financing for the development of social infrastructure such as free hospitals for the poor.
4. The development of endowment funds for social institutions is channeled into BPKH benefit funds.

Sustainable Agriculture

Sustainable agriculture is an agricultural practice that pays attention to the balance between ecosystems, economy, environment, and human well-being (Raidar et al. 2023). In addition, sustainable agriculture systems have standards, principles, characteristics, as well as positive and negative impacts, indicators, and applications that aim to run agriculture sustainably.

The agricultural sector has a very significant role in the national economy. The main role of the agricultural sector is to strengthen food security, reduce poverty,

create jobs, and distribute income equally. Sustainable agriculture is the realization of the idea of sustainable development in this sector (Hapsoro & Bangun, 2020).

Method

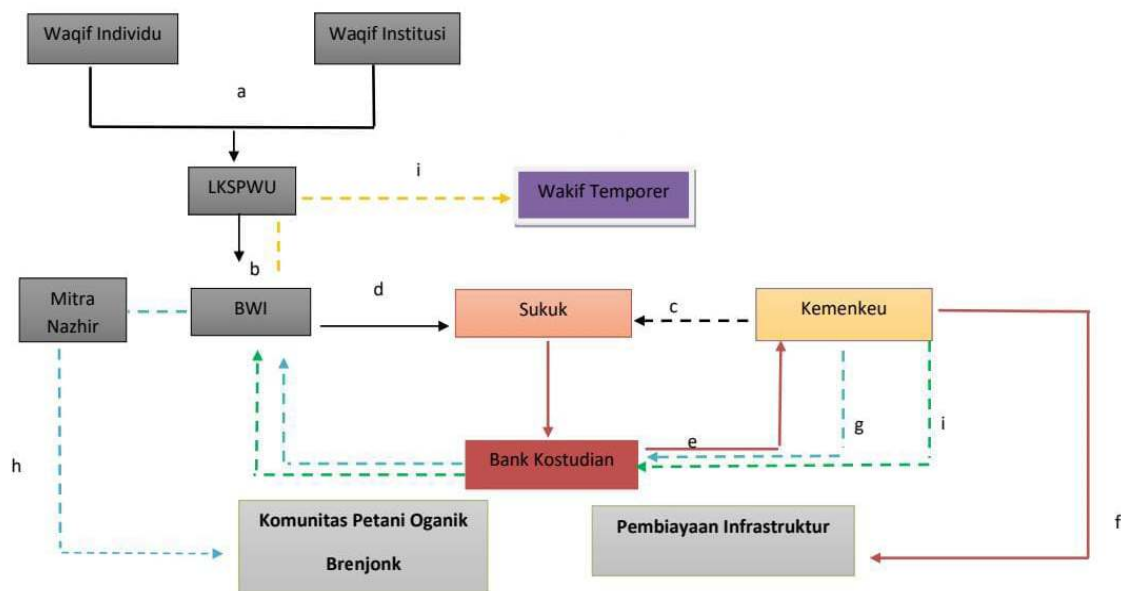
This research is a type of exploratory qualitative research with the library research method. This study tries to explore the potential of cash waqf linked sukuk for sustainable agricultural development. Nilamsari (2014) explained that exploratory qualitative research is carried out to produce information and knowledge in fields that are still under researched. The data collection technique is through documentation techniques.

Results and Discussion

CWLS Model as Sustainable Agriculture Financing

In this study, we try to develop a money waqf model through the Cash Waqf Linked Sukuk (CWLS) instrument to be channeled as a form of financing in the sustainable agricultural sector.

Figure 1. CWLS Model for Sustainable Agriculture



The description related to the agricultural financing scheme using the Cash Waqf Linked Sukuk instrument:

1. Waqif individuals and institutions must waqf their money through LKS-PWU
2. LKS-PWU handed over money waqf to BWI
3. The Ministry of Finance issues waqf sukuk with infrastructure development projects as an underlying asset for sukuk issuance.
4. BWI invests waqf funds collected through LKS-PWU in sukuk instruments issued by the Ministry of Finance.
5. Custodial banks provide waqf sukuk funds to the finance ministry
6. The finance ministry allocates sukuk funds to finance infrastructure development
7. The Ministry of Finance through Custodian Bank pays waqf coupons periodically to BWI

8. BWI distributes the waqf sukuk yield obtained for *mauquf alaih* through *nazhir* partners.
9. The finance ministry returns the waqf sukuk yield to BWI through the custodian bank when it matures
10. BWI returns waqf funds to waqf with a temporary scheme through LKS-PWU.

In the Cash Waqf Linked Sukuk instrument, the finance ministry benefits by obtaining a large amount of funds that can be used in infrastructure development. Meanwhile, BWI benefits through the returns paid by the finance ministry and is used for productive activities related to *mauquf alaih*. CWLS returns are then distributed through *nazhir* partners to the farming community.

In the Cash Waqf Linked Sukuk (CWLS) instrument, there are two options for money waqf, namely:

1. Temporary waqf scheme, where the principal of the waqf will be returned to the waqf when the tenor has expired.
2. The perpetual scheme, namely the principal of the waqf will be returned to BWI.

The farming community can first submit a proposal to the *nazhir* partner to obtain CWLS benefit assistance. In this case, BWI does not distribute CWLS returns directly, but by collaborating with responsible consultants. CWLS returns can be used by the farming community in meeting their agricultural needs such as land addition, procurement of renewable energy facilities and filling fertilizer stocks.

Potential of Cash Waqf Linked Sukuk (CWLS) for Sustainable Agriculture Sector Development

The development of waqf in Indonesia is quite extraordinary every year. The existence of waqf can help the government to build a sustainable agricultural sector. Efforts to develop sustainable agriculture are not only the task of the government but involve private sectors. Waqf is a representation of people's concern for social conditions. Making waqf as alternative financing means involving the community in national development.

According to data from the 2023 Indonesia Waqf Agency (BWI), the potential valuation of land waqf in Indonesia reaches Rp 2000 trillion, while money waqf reaches Rp 180 trillion per year. This shows that the social concern of the Indonesia people is quite high. From this number, we can see that Indonesia has considerable financial potential. If we compare it with the allocation of the Ministry of Agriculture's State Budget of Rp 14.5 trillion, then we only need about 12.5% of the potential waqf. If that much potential can be utilized to the maximum, of course, it will greatly help agricultural development in the future.

With an estimated potential of waqf funds of Rp 180 trillion, with only 30%, the available funds are Rp 54 trillion. If the funds are invested in sukuk with the Cash Waqf Linked Sukuk (CWLS) scheme, the coupon alone will reach IDR 3.24 trillion (assuming a coupon of 6%), equivalent to 4.5% of the total state budget in 2023. From this amount, we can see how great the potential of Cash Waqf Linked Sukuk (CWLS) is. In addition to being a means of social investment, CWLS functions as an instrument that can help cover the shortfall in the state budget. Although the potential for money waqf is very large, the low public participation makes the realization only Rp 2.3 trillion. This indicates that there is still a large gap between potential and realization.

Maximizing CWLS requires synergy between stakeholders related to Islamic philanthropic institutions and third parties such as companies. For this reason, companies can place *Corporate Social Responsibility* (CSR) funds in CWLS instruments with pre-paid or temporary waqf schemes. For BWI, this is a snowball effect in collecting waqf funds, while for the company, it is the fulfillment of social obligations. The flexibility of waqf as financing sustainable agricultural development has a wider range than zakat. Its flexible nature provides maximum opportunities for wider public benefits.

Waqf as an Islamic philanthropic institution has great potential to help the growth of the agricultural sector. Waqf land covering an area of more than 56 thousand hectares can be used as an agricultural area to overcome land conversion problems. The potential of waqf money which reaches 108 trillion can be used as a source of financing combined with waqf assets in the form of land.

Conclusions

Waqf is a very potential Islamic social finance instrument. The realization of optimal waqf will have a huge impact on the development of the country. The waqf model that is currently being developed is Cash Waqf Linked Sukuk. Cash Waqf Linked Sukuk yields can be used for the sustainable agriculture sector. BWI as the *nazhir* of money waqf allocates the yield of CWLS funds obtained from the Ministry of Finance to farmers in the form of productive assistance through *nazhir* partners.

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