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# Cash Waqf model for MSMEs in Indonesia

MSMEs play a crucial role as a powerful engine for economic growth, job creation as well as social and development activities. In Indonesia, MSMEs have played a considerable role in the socioeconomic development of the country. For example, the sector overwhelms the country’s business activities, representing 99.99% of the market share of all businesses in Indonesia and absorbing 97.02% of employment, according to the Ministry of Cooperative and SMEs in 2017. Unfortunately, despite their vital role, the sector continues to experience complex challenges and constraints in many aspects, such as financing structure, lack of qualified human resources and the complexity of government regulations and bureaucracy. M MAHBUBI ALI and SHABANA M HASAN write.



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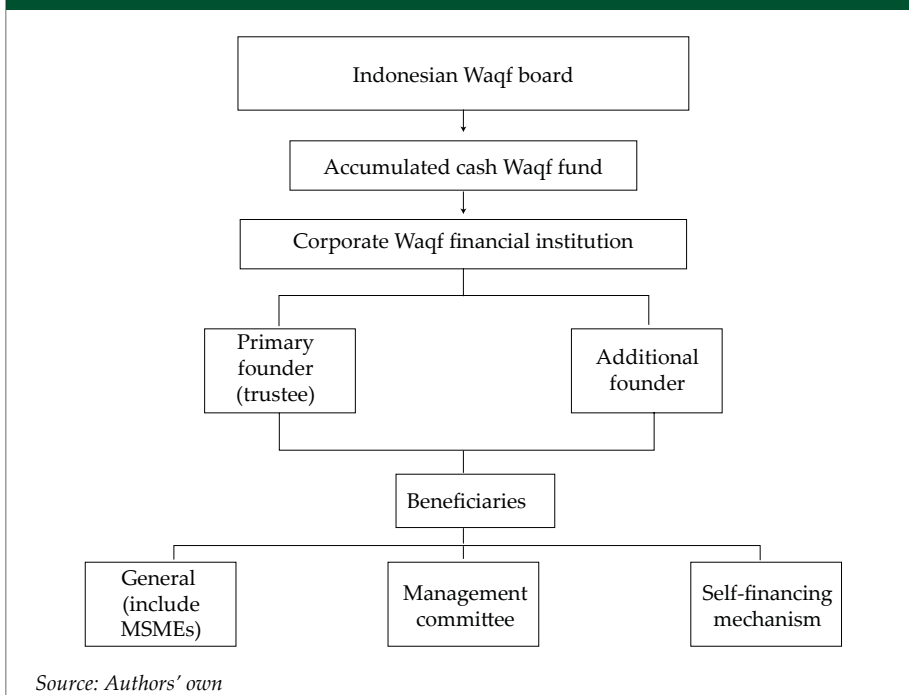
the International Institute of Advanced Islamic Studies Malaysia and **Shabana M Hasan** is an independent Islamic finance scholar. They can be contacted at [mahbubi.ali83@gmail.com](mailto:mahbubi.ali83@gmail.com) and [shabana@isra.my](mailto:shabana@isra.my) respectively.

To address the specific challenge of financing access, an alternative financing tool for MSMEs is proposed – the Islamic concept of cash Waqf which originated from the Ottoman empire in the 15<sup>th</sup> century. Briefly, cash Waqf is a movable type of Waqf where its corpus consisted purely or partially of cash. Of more importance, since the utilization of cash Waqf is permitted both in terms of religion and law in Indonesia, is that it can potentially be a successful practical solution to address the lack of financing access.

In Indonesia, the development of the cash Waqf model was pioneered by a non-profit organization, Dompot Dhuafa Republika. Through its dedicated Waqf body known as Tabung Waqf Indonesia (Indonesian Waqf Box), the cash Waqf proceeds are assigned for various initiatives, including poverty alleviation programs, free medical services and educational and entrepreneurship development programs.

In 2007, Indonesia’s government established the Indonesian Waqf Board (Badan Wakaf Indonesia or BWI), an independent body found based on the mandate outlined in Act No 41/2004 on Waqf, and mainly to promote and develop Waqf in the country. Furthermore, the potential of cash Waqf in Indonesia could reach up to IDR180 trillion (US\$12.42 billion), according to the BWI in 2018.

Figure 1: Proposed cash Waqf-based model



Source: Authors’ own

Against this backdrop, it is suggested to have a cash Waqf-based model as a problem-solving tool for MSMEs in Indonesia with the appropriate infrastructure – both social and physical – founded on Islamic principles and requiring no collateral. The cash Waqf-based model shall be established under the auspices of a reputable and respected Waqf organization such as the BWI, as it would have the moral authority to take leadership in the implementation of this model.

Primarily, the proposed cash Waqf-based model seeks to utilize the Waqf funds attained from the primary founder to provide technical assistance and start-up capital to MSMEs in Indonesia. Although one of the objectives of the proposed cash Waqf-based model is the eradication of poverty, it also emphasizes on offering opportunities to MSMEs in Indonesia

for them to progress to a higher level of financial security.

The proposed cash Waqf model is set through the establishment of a corporate Waqf financial institution. Through the corporate Waqf financial institution, the accumulated cash Waqf fund will be pooled in the corporate Waqf financial institution. The funds will then be invested in accordance with Shariah principles and will be distributed to the beneficiaries. In this situation, MSMEs will be one of the main beneficiaries that fall under the category of philanthropic Waqf (Waqf Khairi).

The establishment of the corporate Waqf financial institution suits the modern environment alongside the increased cost of living, where the majority of population can no longer afford to create immovable Waqf. Thus, with the establishment of a corporate Waqf financial institution, people can

Continued

contribute an amount of money and help to develop society and achieve rewards in the hereafter.

It is worth highlighting that there are three categories of people involved in the establishment of the corporate Waqf financial institution, mainly the founders (primary and additional founders), the trustee and the beneficiaries. The primary founder, usually consisting of reputable Islamic bodies and government corporations, will also act as the trustee.

Being the trustee, it will be the responsibility of the primary founder to manage the accumulated cash Waqf fund. The additional founders are the individuals, companies and organizations that are invited by the primary founder to ensure that the cash Waqf fund meet its financial objective.

Finally, the beneficiaries are allocated to three different categories: the various general beneficiaries (including MSMEs), the management committee and a portion assigned to the self-financing mechanism to ensure that in times of low performance, the corporate Waqf financial institution will remain financially stable. Figure 1 illustrates the proposed cash Waqf-based model.

Overall, MSMEs play an important role in promoting economic growth, creating job opportunities and encouraging social and development activities in Indonesia. Thus, a successful and thriving MSME sector in Indonesia can play a significant role in the success of the economy.

Unfortunately, the establishment of MSMEs cannot be achieved by financial institutions alone, especially in the current debate climate whereby the prevailing opinion is that financial institutions do not provide a social purpose of distributive justice and social equity beyond their narrow role.

Consequently, cash Waqf can be regarded as the most appropriate type of Waqf with regards to financing opportunities for MSMEs in Indonesia. Cash Waqf funds can assist MSMEs to move up the economic ladder and help to reduce the considerable disparity gap between the rich and the poor in the country. <sup>(2)</sup>

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