

The Potential of Cash Waqf Linked Sukuk for MSME Empowerment

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ABSTRACT

Introduction to the Problem: Indonesia, the world's largest Muslim-majority country, was named the most generous country globally by the Charities Aid Foundation (CAF) for the seventh consecutive year, based on the World Giving Index 2024. The country has several Islamic public finance instruments, including zakat, infaq, sadaqah and waqf. In 2021, the Directorate of Zakat and Waqf Empowerment noted that the potential of national cash waqf reached 180 trillion rupiah. However, this huge potential has not been optimally managed, while the welfare of the Muslim community and access to financing for MSMEs remain a challenge.

Purpose/Objective Study: This research aims to identify the potential of Cash Waqf Linked Sukuk (CWLS) for MSMEs' empowerment.

Design/Methodology/Approach: This research used a qualitative approach to provide a detailed description in the discussion section, making it easier for readers to understand. The data used is secondary data obtained from previous research results or journals that have been published via the internet, and statistical data sourced from OJK.

Findings: This study finds that CWLS has a great opportunity in Indonesia. The legality of cash waqf is supported in the law as well as cooperation between the Indonesian Waqf Board, Islamic financial institutions, Bank Indonesia, the Ministry of Finance, and the Ministry of Religious Affairs. Good management can maximize the potential of CWLS for MSME empowerment. Recommendations for further research include the development of a CWLS-based MSME empowerment model that utilizes big data and artificial intelligence, enabling in-depth analysis to understand the specific needs of MSMEs and optimize fund allocation.

Research Type: Research Article

Keywords: Cash Waqf Linked Sukuk¹, MSME Empowerment², Cash Wakaf³

INTRODUCTION

Indonesia is the country with the largest Muslim majority in the world, so it has a greater opportunity than other countries in terms of collecting Zakat, Infaq, Sadaqah, and also Waqf (ZISWAF). Moreover, Indonesian people have a very high level of concern. Based on the word giving index 2024 data released by the Charities Aid Foundation (CAF), Indonesia has been the country with the highest level of generosity in the world for seven consecutive years with 74 points. The details are, 66 percent donate to foreigners, 90 percent contribute with donations, and 65 percent contribute as volunteers.

Figure 1: Countries with the highest levels of generosity in the world.

RANK	COUNTRY	WORLD GIVING INDEX	HELPED A STRANGER (% OF ADULTS)	DONATED MONEY (% OF ADULTS)	VOLUNTEERED (% OF ADULTS)
1	Indonesia	74	66%	90%	65%
2	Kenya	63	82%	56%	52%
3	Singapore	61	75%	68%	40%
4	The Gambia	61	78%	61%	45%
5	Nigeria	60	81%	45%	53%
6	United States of America	59	76%	61%	39%
7	Ukraine	57	77%	67%	27%
8	Australia	54	69%	59%	34%
9	United Arab Emirates	54	65%	59%	37%
10	Malta	54	56%	74%	31%

Photo source: www.cafonline.org

There are several Islamic public finance instruments in Indonesia including Zakat, Infaq, Sadaqah Infak and Waqf. Indonesia, with its high Muslim population, provides great potential for waqf collection. However, the potential has not been fully utilized. This can be seen from the low realization of waqf fund collection. Until February 2021, the waqf funds collected amounted to IDR830 billion, consisting of waqf through money of IDR586 billion and cash waqf of IDR244 billion. In fact, the potential of waqf assets in Indonesia reaches IDR 2,000 trillion per year, and the potential for cash waqf reaches IDR 180 trillion per year (National Sharia Finance Committee, 2019). Moreover, this potential is specific to cash waqf, and it is even predicted that it will continue to grow with the financial traffic between countries, so that the source of cash waqf collection has the opportunity to enter from other countries (Bank Indonesia, 2021).

However, unfortunately this potential has not been optimally utilized (Ministry of Finance of the Republic of Indonesia et al., 2021). Indonesian Waqf Board (BWI, 2022) noted that throughout 2018-2021, the waqf funds collected were 855 billion rupiah, increasing to 1.4 trillion in 2022. However, the problem is that the potential of waqf has not been maximized. Waqf in Indonesia tends to be utilized only for the benefit of worship activities, education, funerals and less utilized for more productive empowerment (Medias, 2017).

Indonesian people's literacy about waqf is still minimal. People tend to understand waqf in the form of land, mosques and other buildings. In fact, currently *waqf* has been transformed into instruments that motivate people to endow, such as cash *waqf* that has been collaborated with sukuk called *Cash Waqf Linked Sukuk* (CWLS) (Rahayu & Agustianto, 2020). The transformation of waqf sukuk is expected to be a more productive instrument.(M. I. F. Rahman et al., 2021).. Sukuk waqf has received attention from the government, since 2004, marked by the issuance of Law No. 42 of 2004 which discusses waqf.

Cash Waqf Linked Sukuk is one of the concepts of Islamic finance based on the principles of morality and justice, so that the basis of its operation comes from the Al-Qur'an and Hadith and ijma' CWLS instruments must fulfill the principles of sharia'ah, namely transactions carried out by parties must be fair, halal, thayyib, and maslahah.(Paul & Faudji,

2020). Annual report of cash waqf linked sukuk (Ministry of Finance of the Republic of Indonesia et al., 2021) mentioned that the purpose of this waqf sukuk is to support the Islamic financial market, raise Islamic social funds, and encourage a variety of Islamic bank businesses and a variety of SBSN instruments. Another advantage of this waqf sukuk is that it makes it easier for waqifs to donate, because waqifs can donate any amount. The existence of this Islamic bond is expected to be a national waqf innovation, including: *First*, CWLS can become a national waqf movement and can increase the literacy and socialization of the community regarding cash waqf. *Second*, the existence of CWLS is expected to increase the number of new waqifs, especially millennials, and also to familiarize them with cash waqf social finance and the concept of sukuk-based cash waqf. *Third*, CWLS can help nazir to manage waqf assets so as to help *mauquf'alaih* and the community with the results of CWLS management.

The large cash waqf assets in reality are not necessarily accompanied by the level of welfare for the Muslim community in Indonesia. The challenges that must be faced today are increasing waqf awareness, increasing government support, accelerating waqf certification, improving nazir management, and digitizing and integrating waqf data.(BWI, 2022). Actually, cash waqf can be more effective and reliable if it is distributed for productive activities such as empowering Micro, Small and Medium Enterprises (MSMEs). Given that MSMEs are currently experiencing an increase.

The development of MSMEs plays a role in improving the country's economy. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Ministry of KUKM, 2022), the number of MSMEs in Indonesia reached 99.9 percent of all business units, with the contribution of MSMEs to GDP reaching 60.5 percent. MSMEs are also able to absorb labor amounting to 96.9 percent of the total national employment (Rizqia, 2023).

Behind the increasing development of MSMEs, entrepreneurs still face various problems in developing their businesses, one of which is capital.(T. Ardiansyah, 2019). Difficulties in capital certainly have an impact on the decline of MSMEs in market competition, which will ultimately affect the Indonesian economy, because MSMEs are one of the foundations of the country's economy. The financing constraints experienced by MSMEs encourage the government and private companies to provide financial intermediation services through banks and other financial institutions (Hasibuan & Marliyah, 2024).

The government and private sector in this case have tried to minimize these problems by providing credit loans through banks and other microfinance institutions. However, the implementation is still not optimal, access to capital financing is still considered very difficult to reach by business actors (Syafitri and Latifah, 2023). Based on data from the Minister of Cooperatives and SMEs, Teten Masduki, in a working meeting with the House of Representatives (DPR) in 2023, explained that in 2020, the distribution of People's Business Credit (KUR) for the MSME sector from banking institutions reached IDR 4.8 trillion, while for the Regular KUR program it was IDR 365.5 trillion. This amount is relatively small compared to other countries. In Thailand, credit channeled by banks to MSMEs reaches more than 40%, and in South Korea even up to 81%. This comparison is quite concerning,

considering that the MSME sector in Indonesia is able to create 97% of jobs and contribute 60% to GDP, but credit support from banks has only reached 20% (Hasibuan & Marliyah, 2024).

Based on various studies on CWLS including (Rahmani & Prasetyo, 2024) This study also highlights that CWLS has great potential to strengthen the waqf ecosystem and support Islamic financial inclusion in Indonesia, (Oftafiana, 2024) This study concluded that Cash Waqf Linked Sukuk (CWLS) is an Islamic investment innovation that focuses on social aspects in Indonesia. CWLS has an important role in strengthening the capacity of the Islamic economy, improving the management of national waqf institutions, supporting sustainable development goals (SDGs), and encouraging social investment, (Lail, 2022) The conclusion of this study shows that Cash Waqf Linked Sukuk (CWLS) has a significant role as an Islamic investment instrument that supports community empowerment in Indonesia. CWLS enables more productive and targeted utilisation of waqf assets, and has a positive impact on the health, social, education, and economic sectors, and (Yumna et al., 2024) This study provides the importance of waqf empowerment policies and encourages increased public and investor participation in CWLS programmes to support economic development and community income.

After seeing various previous studies related to CWLS and to the best of the author's knowledge, the previous research generally only highlighted CWLS as an instrument for waqf empowerment and community economic empowerment in order to encourage sustainable economic development, but did not touch specifically on the empowerment of MSMEs. Therefore, researchers are interested in conducting library research with the title 'The Potential of Cash Waqf Linked Sukuk for MSME Empowerment.' The novelty value of this research is the discussion of CWLS which focuses on empowering MSMEs in Indonesia and the challenges faced in its future implementation. The objectives of this research include: To provide an overview of the potential of CWLS in financing MSMEs and the challenges in its implementation and application in Indonesia.

LITERATUR REVIEW

Cash Wakaf Linked Sukuk was born as an effort to optimize the potential of cash waqf in a productive, safe and competitive rate through state-guaranteed Islamic financial instruments. There are 5 stakeholders involved in this CWLS including: a) Bank Indonesia which acts as an accelerator in encouraging the implementation of the Custodian Bank CWLS, b) Indonesian Waqf Board Indonesia acts as an SBSN issuer and fund manager in the real sector, c) Nazir productive waqf, as a BWI partner who collects waqf funds d) BNI Syariah and Bank Muamalat as a money receiving Islamic financial institution (LKS-PWU) and BWI Operational Bank.

Here are some advantages of CWLS among them:

1. Secure because the application of cash waqf in investment instruments is guaranteed by the state (Paoloni et al., 2023; Riani & Fatoni, 2022)
2. Productive because there is a return that is paid every month and is used to finance social programs / activities and community economic empowerment (Anindhita & Widana, 2022)
3. Trustworthy because the management and utilization of cash waqf funds are transparent and accountable (Humaidi, 2023)

4. It is easy because there are facilities for money donors, so that it can be utilized for productive activities (Musari, 2022)
5. Intact because the funds will return 100% to the Wakif (temporary)/ Nazir at the maturity of the SBSN (Indrawati, 2023)
6. Blessed because with a minimum of IDR 1 million, you have invested jariyah full of blessings (Manukovskaya et al., 2020).

Abror Paul (2023) conducted research on the potential and management of cash waqf linked sukuk as an alternative state financing instrument, this study found that cash waqf linked sukuk has potential as an alternative state financing instrument in Indonesia. This can be seen from the creation of the integration of Islamic commercial and social finance, so that the contribution of Islamic financing can increase and the deepening of the Islamic financial market which has an impact on economic growth can be optimized. The integration between the Islamic commercial sector and social finance is expected to not only expand instruments, but also have an impact on poverty reduction, increase financial inclusion and socio-economic welfare, and increase financial system stability.

Another research was also conducted by Arista & Shabrinaifah (2021), discussing the optimization of the utilization of land waqf with the state sukuk waqf scheme, it was found that the cash waqf-based sukuk instrument can be used to finance social-based projects, because sukuk plays an important role in economic growth in Indonesia, because it provides diversification benefits, finances the development of infrastructure projects, and increases public financial inclusion. This instrument makes a significant contribution to the development of Islamic financial inclusion in Indonesia. This indicates that sukuk is able to become one of the financing at national and global levels. It was also found that the difference in demand and *supply* (*supply and demand*) of sukuk continues to increase every year.

Furthermore, Binti Aisiyah (2020) in her research found that sukuk plays an important role in the liquidity of Islamic financial institutions when economic conditions worsen due to Covid-19. Sukuk can have an impact on economic growth, and is considered capable of being a source of funds for the government to finance development, so that it can create new jobs for the community in the long run.

Another study was conducted by Maria Ulpah & Saepul Jahar (2019) using a quantitative approach, through collecting data in numerical form and analyzing with the help of statistical tools. Various projects have been carried out through cash waqf linked sukuk, for example by the Dompot Dhuafa and Al Azhar Institutions. The new formulation of cash waqf development in the form of investment is able to encourage the social, educational and economic development of the poor. Some of the projects built by Dompot Dhuafa through cash waqf investment include hospitals, commercial facilities and investing in plantations and livestock. In addition, Al Azhar's cash waqf innovation develops transportation waqf and other productive waqf, so that the benefits can be felt continuously.

Research also conducted by Maria Zulfa & Muhammad Arif (2020) using the total sampling method using 5 people from the total population of rattan handicraft MSMEs in Pekanbaru. regarding the potential of cash waqf in encouraging the development of MSMEs, the results show that the potential for cash waqf in encouraging the development of

MSMEs in Pekanbaru City in the form of religion, cash waqf benefits, business capital, sales turnover, business profits are in demand by rattan furniture and rattan handicraft MSMEs. In addition, many MSMEs are developing their businesses with cash waqf, so as to reduce unemployment and poverty.

RESEARCH METHOD

This research uses a library study (Library Research). This type of literature study research can be obtained through data collection techniques from various journals obtained on the internet. Library study according to Mardalis in (Mirzaqon & Purwoko, 2017) is a study used to collect information and data using various materials available in the library in the form of documents, books, magazines and historical stories. This research uses a qualitative approach to provide a detailed description in the discussion section, making it easier for readers to understand. The data used is secondary data obtained from previous research results or journals that have been published via the internet and statistical data sourced from OJK.

The object of this research is Cash Waqf Linked Sukuk. This research uses data collection techniques, in the form of documentation, which is an approach that relies on the study of existing documents as the main data source. The documents in question can be in the form of writings, images, or recordings, which are usually stored in libraries, archives, or available online through digital libraries and scientific databases. (A. Ardiansyah et al., 2023). Therefore, in this research, various sources of writings, images and other archives containing information on Cash waqf Linked Sukuk are collected in a systematic way, by reading, understanding, classifying, and analyzing the contents of these various documents to answer research questions or achieve specific research (Chiho et al., 2023).

RESULT AND DISCUSSION

CWLS is an innovation of waqf assets from all immovable assets (land and buildings), to movable/cash assets such as money. There are several advantages of cash waqf, including:

1. Opening up a wider participation space than land and buildings for the community to make waqf, with a relatively much smaller value;
2. Cash waqf can serve as a source of financing for the development of state assets, while its benefits can be used to fund the social funding needs of the wider community;
3. Cash waqf has the opportunity to further develop Islamic financial inclusion.

This CWLS innovation was born with the aim of facilitating people to place their waqf money in safe and productive investment instruments through CWLS. The collected waqf money will be managed by the nazir and will be issued by the Ministry of Finance. The use of this waqf is for the development of productive social projects that will later become waqf assets. The returns placed in the W-series state sukuk cash waqf will be channeled to improve community welfare and run social projects.

Supporting the sustainability of CWLS in Indonesia requires a joint role and collaboration between relevant authorities or institutions, including the Indonesian Waqf Board (BWI), Bank Indonesia (BI), Ministry of Finance, Ministry of Religious Affairs, and Sharia Financial Institutions (LKS). The role of each institution in supporting CWLS is as follows:

1. Indonesian Waqf Board (BWI)

As the authorized institution for waqf management in Indonesia, the Indonesian Waqf Board (BWI) has an important role in the CWLS program. First, BWI acts as the *single buyer of* Sukuk Wakaf Indonesia (SWI), which means that only BWI can purchase SWI to facilitate the management of cash waqf funds in the form of CWLS. In addition, BWI is responsible for the operationalization of transactions involving the Ministry of Finance and Sharia Financial Institutions-Money Waqf Managers (LKS-PWU), including the management of collected funds. BWI also plays a role in *formulating* the design of CWLS instruments or business models, determining nazir partners who will receive an allocation of returns from CWLS, and developing a structured and directed CWLS marketing program through the *Formulated CWLS Marketing Program* (BWI, 2020).

2. Bank Indonesia (BI)

Bank Indonesia (BI) plays an important role in recording SWIs in the Bank Indonesia Scripless Securities Settlement System (BI-SSSS) system to ensure a smooth *settlement* process. In addition, BI also formulates the design of CWLS instruments or business models together with related parties. BI also acts as a facilitator in CWLS product marketing activities and Training of Trainers (ToT). BI's role in communication with the National Sharia Council-Majelis Ulama Indonesia (DSN-MUI) is also crucial, because it involves sharia views related to the issuance of the inaugural CWLS to comply with sharia principles (BWI, 2020).

3. Ministry of Finance

The Ministry of Finance acts as the issuer of the Indonesian Waqf State Sharia Securities (SBSN)-based Sukuk. The ministry participates in formulating the design of the CWLS instrument or business model so that the product can be attractive to the public and in accordance with applicable regulations. In addition, the Ministry of Finance determines the benefits of the waqf *corpus* (principal of waqf funds) so that it can be used for predetermined purposes. The ministry also acts as a facilitator in the marketing activities of CWLS products and in the Training of Trainers (ToT) to increase the understanding and participation of various parties in CWLS (BWI, 2020).

4. Ministry of Religious Affairs

As the authority that regulates religious affairs in Indonesia, the Ministry of Religious Affairs has an important role in waqf management, including issuing provisions related to waqf management. This role includes supervising and providing guidelines in accordance with Islamic religious provisions, so that the implementation of CWLS can run according to sharia principles (BWI, 2020).

5. Sharia Financial Institution (LKS)

The Islamic Financial Institution serves as a liaison between the wakif (waqf giver) or investor and the CWLS program. The LKS is responsible for the *settlement of* transactions with the waqif or investor, ensuring that the funds channeled to CWLS can be managed efficiently. In addition, the LKS also plays a role in facilitating the investment of funds collected in the CWLS program and assisting in marketing CWLS products to prospective waqifs or investors (BWI, 2020).

The development of CWLS in Indonesia is a good thing and a very interesting innovation in the model of waqf. There are several objectives of this retail CWLS including:

1. Make it easy for people to donate safe and productive money.
2. Developing innovations in social finance and investment in Indonesia.
3. Promote inclusive and sustainable economic growth.
4. Supporting the National Waqf Movement, assisting the development of social investment, and the development of productive waqf in Indonesia.
5. Strengthening the cash waqf ecosystem in Indonesia.

Cash Waqf Linked Sukuk (CWLS) is an innovative and strategic financial instrument in supporting investment and development in various important sectors such as education, community empowerment, MSMEs, religion, and social affairs. (Yusuf et al., 2022). By utilizing cash waqf funds collected from communities and institutions, CWLS is invested through sukuk issuance whose proceeds are used to fund various sustainable development projects. (Baiti & Syufa'at, 2021).. In the field of education, CWLS plays an important role in the construction of educational facilities such as schools and universities in remote areas, as well as providing scholarships for underprivileged students, thus improving access and quality of education for the wider community (Humaidi, 2023).

In addition, CWLS also contributes to community empowerment and MSME development by providing more affordable business capital in the form of *qardul hasan* through Sharia financial institutions. (Rusydiana, 2023). This capital enables MSMEs to increase production capacity, create jobs, and support local economic growth (Yusuf et al., 2022). In the religious sector, CWLS helps fund the construction and maintenance of places of worship and religious education programs (M. Rahman et al., 2021). This not only strengthens religious facilities, but also supports the spiritual development of the community (Ashfahany & Lestari, 2023).

In the health and social services sector, CWLS plays an important role by funding the construction of clinics, the provision of free health services, and other public health programs. (Rusydiana, 2023). This funding helps improve community access to quality health services, especially in remote, hard-to-reach areas (Yasin, 2023). (Yasin, 2023). In addition, CWLS can also be used to support various other social projects such as clean water provision, infrastructure improvement, and waste management, all of which aim to improve the overall well-being of the community (Lail, 2022).

With these benefits, Cash Waqf Linked Sukuk (CWLS) not only provide financial support for high social impact projects, but also offer a sustainable investment mechanism in accordance with Shariah principles. (M. Rahman et al., 2021). This allows communities to actively participate in socio-economic development while earning appropriate returns. (Ashfahany & Lestari, 2023). Through proper implementation and support from various stakeholders, CWLS has great potential to create significant positive impacts for social and economic development in Indonesia as well as other countries implementing similar concepts (Mudriqoh, 2023).



Source: Financial Services Authority (OJK), 2023

Based on the statistical table data, it can be seen that from 2019 to March 2023 outstanding sukuk continued to increase. The largest increase in *outstanding* occurred in 2022, from 66.45 to 84.97, an increase in the number of outstanding of 18.52. Meanwhile, the lowest *outstanding* increase occurred in the 2022-2023 period with an increase of only 1.83. (Financial Services Authority OJK, 2023). This development is certainly fresh news for the Indonesian people in general, because sukuk is a safe investment. The issuance of sukuk also serves to control the amount of money in circulation so that it can overcome the problem of inflation (Asiyah et al., 2020).

MSME Empowerment

Capital is one of the most important factors and even the main concern that must be prepared by small businesses. With this CWLS endowment, it will provide opportunities for MSMEs, especially in Indonesia, to get loans without having to borrow from banks. Because, borrowing through conventional banks always imposes interest, so that it becomes an additional burden for MSMEs. In addition, access to bank financing for small businesses will be difficult, because banks will certainly choose businesses that deserve to be given loan capital, such as large-scale businesses. Therefore, financing through the CWLS scheme will be very beneficial if it is well implemented for MSMEs, without interest and requirements that make it difficult to return (Kholid, 2020). Apart from providing financial support, CWLS also plays a role in social empowerment. By allocating funds to programs that support the development of MSMEs, CWLS can help create new jobs and improve community welfare (Oftafiana, 2024).

The utilization of CWLS to empower MSMEs is one of the mandates of Law No. 25/2018. Where in the regulation regulates the use and management of waqf for broader purposes, including social projects and economic empowerment. In addition, there is an MoU between the Ministry of Finance, Bank Indonesia, Ministry of Religious Affairs, and the Indonesian Waqf Board regarding inter- institutional cooperation in the development of CWLS to finance projects that benefit the community, including MSME empowerment. So that by utilizing CWLS to empower MSMEs is one form of application of the Law, by providing MSMEs with loans with a Qardul Hasan

contract, where this contract is a loan between the two parties, without any collateral or additional requirements, making it very easy for MSMEs.

MSMEs not only impact individual entrepreneurs, but also the macro economy. In 2023, the contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) reached around 61% or equivalent to IDR 9,580 trillion. MSMEs also play a significant role in employment, absorbing around 97% of the total workforce in Indonesia, which is around 117 million workers. This figure shows that MSMEs are the backbone of the national economy, with the number of business actors reaching around 66 million units spread across various business sectors, this is proof that MSMEs have great potential to improve and strengthen the economy, especially for MSME empowerment (Kadin Indonesia, 2023).

CWLS Potential for MSME Empowerment

In 2022, the development of the waqf sector in Indonesia experienced a remarkable increase with the largest increase in *outstanding* from 66.45 to 84.97, an increase in the number of outstanding of 18.52. There are seven indicators that corroborate the projected increase in waqf performance, including: *First*, the performance of national waqf management in 2022 has increased significantly. This can be proven based on the value of the 2022 National Waqf Index (IWN), the increase is twice as large as the increase that occurred in 2021. *Second*, the support from a number of regional regulations in the form of governor regulations related to the strengthening of the Islamic economy including waqf, in addition to the establishment of the KDEKS sharia economic and financial regional committee), nazir coaching by the authorities, and APBD support that supports the regional BDWI operations. *Third*, the waqf bases related to the endowers are getting wider. In addition to the increasing number of individual waqfs, institutional waqfs also show an increasing trend with diverse institutional bases such as several educational institutions. *Fourth*, technological developments are increasingly effective in facilitating the improvement of the quality of waqf services. *Fifth*, waqf products are increasingly diverse. *Sixth*, waqf literacy is increasing as seen from the development of scientific dynamics on waqf. *Seventh*, the quality of human resources of waqf managers is increasing (Beik, Irfan Syauqi, 2022).

Waqf has long received attention from the government. With the issuance of law number 41 of 2004 concerning waqf, it is explained that waqf functions to realize the potential and economic benefits of waqf property for the benefit of worship and promoting public welfare. In addition, the regulation of the Minister of Religious Affairs of the Republic of Indonesia number 1 of 2022 concerning the management and development of *cash waqf* through *cash waqf linked sukuk waqf* in accordance with its function to facilitate waqf in empowering the people's economy and social activities.

In addition, there are several *stakeholders* who synergize in the development of cash waqf linked sukuk including: a) Bank Indonesia which acts as an accelerator in encouraging the implementation of Custodian Bank CWLS, b) Indonesian Waqf Board Indonesia acts as an SBSN issuer and fund manager in the real sector, c) Nazir productive waqf: As BWI partners who collect waqf funds d) BNI Syariah and Bank Muamalat as money receiving Islamic financial institutions (LKS-PWU) and BWI Operational Banks. The advantages of CWLS include a) safe because it is

guaranteed by the state, b) Productive because there is a return, c) Optimal because the sukuk returns are competitive and not taxed and blessed, namely the sukuk returns are channeled to *mauquf alaih* in need. The following are the benefits of investing cash waqf through CWLS. So if it is utilized to empower MSMEs, the impact will be more optimal.

The existence of Micro, Small and Medium Enterprises (MSMEs) has been growing. MSMEs not only have an impact on individual entrepreneurs, but also on the macro economy. This makes MSMEs play a role in improving the country's economy. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Ministry of KUKM) 2022, the number of MSMEs in Indonesia reached 99.9 percent of all business units, with the contribution of MSMEs to GDP reaching 60.5 percent. MSMEs are also able to absorb labor of 96.9 percent of the total national labor absorption.

Despite the rapid development of MSMEs, MSMEs still face various problems in business development and access to financing (Santoso, 2020). The government and the private sector in this case have tried to minimize these problems by providing credit loans through banks and other microfinance institutions. However, the implementation is still not optimal, access to capital financing is still considered very difficult for business actors to reach (Syafitri and Latifah, 2023). This is an opportunity to utilize CWLS to support MSME capital, because it can be accessed easily and safely.

Challenges in CWLS Implementation

The implementation of Cash Waqf Linked Sukuk (CWLS) in Indonesia in supporting Micro, Small, and Medium Enterprises (MSMEs) faces significant challenges, especially those related to regulation, public literacy, and governance and accountability. In terms of regulation, although CWLS is regulated through Minister of Finance Regulation No. 2/PMK.08/2021 on the Issuance of Savings State Sukuk and Retail State Sukuk, the CWLS financing scheme for MSMEs is still not flexible enough. (Baiti & Syufa'at, 2021) (Cahyono & Hidayat, 2022). Existing regulations tend to prioritize the use of waqf funds for large-scale social and infrastructure projects, so the MSME sector has not been the main focus. (Rusydiana, 2023); (Ubaidillah et al., 2021).. In addition, the lack of policy synchronization between institutions such as the Indonesian Waqf Board (BWI), the Ministry of Finance, and other relevant authorities is an obstacle in optimally distributing waqf funds to MSMEs. (Humaidi, 2023). Therefore, a more inclusive regulatory design is needed so that CWLS funds can be more significantly allocated to the MSME sector, while adhering to sharia principles. (Masrul & Huda, 2021); (Ashfahany & Lestari, 2023).

In addition to regulatory challenges, the low level of Islamic financial literacy in the community is a major obstacle in optimizing the CWLS program. Based on OJK data in 2022, the Islamic financial literacy index in Indonesia is still low, only 9.1%, far behind conventional financial literacy which reached 38.03%. (Nanda et al., 2019). The lack of public understanding of Islamic financial instruments, including CWLS, has led to low public participation in contributing through cash waqf as well as limited understanding of MSME actors regarding the benefits and mechanisms of CWLS (Wahab, 2023);(Menne, 2023). In facing this challenge, increasing Islamic financial literacy in a massive and structured manner through educational campaigns by the government and related institutions is very important. (Marzuki et al., 2022). With increased

literacy, it is expected that there will be more cash waqf donors and utilization of CWLS by MSMEs (Yuwono et al., 2023).

On the other hand, the issue of governance and accountability is also an important issue in the implementation of CWLS. Transparency in the use of waqf funds remains a challenge, despite the provisions of the Indonesian Waqf Board (BWI) regarding the reporting of the use of waqf funds. (Hartoyo, 2020). The fragmented reporting and monitoring system makes accountability weak, which in turn can reduce public trust in the CWLS program. (S. Sari, 2023). In addition, the close collaboration between nazir (waqf managers) and Islamic financial institutions has not been optimized, mainly due to the limited capacity of nazir in managing waqf funds (Zainur & Soemitra, 2023). According to BWI data, only around 30% of the total nazirs are certified and have adequate competence. (Kamal, 2023). Therefore, it is necessary to improve governance through capacity building and certification of nazirs, as well as the implementation of an integrated information system to monitor and report the use of CWLS funds more accurately and transparently (Tamimah, 2021).

Implementation of CWLS in Various Countries

Cash Waqf Linked Sukuk (CWLS) is an innovative financial instrument that combines the concept of cash waqf with sukuk, aiming to support various socio-economic development projects, including financing for Micro, Small, and Medium Enterprises (MSMEs). (Rusydiana, 2023). Some countries have successfully implemented CWLS with approaches tailored to their local needs. In Turkey, CWLS is used to support MSMEs in the agricultural sector, where cash waqf funds are collected from the community and philanthropy to be issued in the form of sukuk. The proceeds from these sukuk are then channeled as interest-free financing to farmers and agricultural MSMEs, allowing them to increase productivity and yields. This scheme not only improves farmers' welfare, but also contributes to rural economic development and national food security. (Ashfahany & Lestari, 2023).

Meanwhile, Malaysia utilizes CWLS to support MSMEs in the halal industry, such as halal food, cosmetics, and services (Rusydiana, 2023). Waqf funds collected from individuals and institutions are used to issue sukuk, the proceeds of which are channeled to halal MSMEs with a lower profit-sharing scheme. (C. Sari, 2023). This support helps MSMEs to increase their production capacity and competitiveness, resulting in significant growth of Malaysia's halal industry and the creation of new jobs (Kunhibava, 2023). In Pakistan, CWLS was implemented to support women-led MSMEs. Waqf funds collected from zakat and community donations are used to provide microloans with low profit-sharing rates to women entrepreneurs (Khan et al., 2016). This not only promotes women's economic empowerment, but also has a direct impact on improving family welfare and local community development (Olabisi, 2015).

Bangladesh has also successfully implemented CWLS to support MSMEs in the health and education sectors. The collected waqf funds are used to issue sukuk, the proceeds of which are channeled as financing for small clinics and private educational institutions. (Sulistiyowati, 2024). This financing enables MSMEs in these sectors to improve the quality of their services, allowing the public to access better health and education services (Paoloni et al., 2024). The success of various countries in implementing CWLS shows that this instrument is effective in providing sustainable and sharia-compliant financing for MSMEs, and has a real impact in driving local

economic growth, job creation, and poverty alleviation (Rani et al., 2019). With great potential, Indonesia can adapt this concept to support the development of MSMEs in various sectors, according to its economic needs and potential.

CONCLUSION

CWLS is one of the Islamic financial instruments in Indonesia. In this case, researchers conducted research related to the potential of CWLS to empower MSMEs. The results obtained that cash waqf has enormous potential in Indonesia, with the legality of cash waqf and discussed in laws, ministerial regulations as well as synergies between several stakeholders such as the Indonesian Waqf Board, Islamic Financial Institutions, Bank Indonesia, the Ministry of Finance and the Ministry of Religion. In addition, the majority of the population in Indonesia is Muslim. This potential will be optimal if it is well managed and utilized for productive activities such as empowering MSMEs. Data from Kadin 2023 shows that the contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) reaches around 61% or equivalent to Rp9,580 trillion. MSMEs also play a significant role in employment, absorbing around 97% of the total workforce in Indonesia, which is around 117 million workers. This figure shows that MSMEs are the backbone of the national economy. Therefore, CWLS will help MSMEs access capital so that they can contribute more optimally to economic growth in Indonesia.

Meanwhile, the implementation of Cash Waqf Linked Sukuk (CWLS) in Indonesia in supporting MSMEs faces major challenges related to regulation, Islamic financial literacy, and governance. Existing regulations have not fully supported financing for MSMEs, while low Islamic financial literacy hinders public participation and utilization of CWLS by MSME players. In addition, governance and accountability issues, especially related to transparency and nazir competence, are also significant obstacles. To overcome this, it is necessary to improve regulations that are more inclusive, massively increase Islamic financial literacy, and strengthen the capacity of nazir and a more transparent reporting system. In its implementation, Cash Waqf Linked Sukuk (CWLS) has been successfully implemented in various countries such as Turkey, Malaysia, Pakistan, and Bangladesh to support MSMEs in the agricultural sector, halal industry, women's empowerment, as well as health and education. CWLS schemes in each country show significant positive impacts, including increased productivity, local economic growth, job creation, and improved access to health and education services. This success demonstrates that CWLS is an effective and Shariah-compliant financial instrument for sustainable MSME financing. The implementation of CWLS in various countries shows success, therefore Indonesia can adapt this concept to support the development of MSMEs in various relevant sectors.

The recommendation for further research is to discuss in more detail the CWLS-based MSME empowerment model with the utilization of big data and AI. The topic is very important because following trends and technological advances, especially the use of *artificial intelligence (AI)* will facilitate CWLS innovation in the empowerment of MSMEs. This research will explore how CWLS can utilize *big data* and AI to understand the needs of MSMEs more deeply and specifically, especially in terms of market-relevant products and services. Using big data analytics, this research aims to offer data-driven recommendations that enable optimized allocation of CWLS funds to MSMEs.

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