

SOCIAL SUKUK FOR SUSTAINABLE DEVELOPMENT –REVIEW OF SUKUK PRIHATIN, IHSAN SUKUK (MALAYSIA) AND CASH WAQF LINKED SUKUK (INDONESIA)

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Abstract: Social sukuk are instruments aimed at providing assistance and relief to societies and communities affected by difficulties. For example Sukuk Prihatin was issued with the objective of easing the burden of those affected by Covid-19 Pandemic, Ihsan Sukuk was the first programme approved under the Securities Commission Malaysia Sustainable and Responsible Investment (SRI) Sukuk Framework while the Cash Waqf Linked Sukuk (CWLS) was issued to use waqf funds for building amenities for the community and for other social benefits. The objective of social sukuk is unlike conventional sukuk, where return on investment is the main priority. In a social sukuk the main objective is to enable under-privileged segments of the society to benefit from the funds provided through the issuance of the sukuk. The objective of this research is to explore and understand social sukuk through case studies by examining issues associated with structure and issuance of social sukuk and provide recommendations for future social sukuk issuances. The methodology used in this research is non-doctrinal and document analysis. Secondary sources were reviewed to answer the research objective. This paper examines three case studies, namely the Sukuk Prihatin and Ihsan Sukuk issued in Malaysia and the CWLS in Indonesia. The objectives of these sukuk and their outcomes were examined and compared. Recommendations on future social sukuk structure and issuance are made accordingly.

Keywords: Sukuk, Waqf, Social sukuk, Cash Waqf Linked Sukuk (CWLS), Islamic Social Finance

1. Introduction

Social sukuk is a type of investment instrument that not only provide financial results but also considers societal and environmental issues. It is an innovative way for private and not-for-profit organisations to partner in delivering better social outcomes. Its objective is to develop social benefit and maintainable environment for the society through sukuk investment¹ as

¹ Mohamed, S., Othman, J., Lehner, O., & Muda, R. (2017). Social sukuk: a new mechanism to fund social services. *Journal of Emerging Economies and Islamic Research*, 5(1), 69-81.

instrument for sustainable development projects.² Islamic social finance is at the centre of social sukuk as an instrument for sustainable development projects.³ Sustainable development is an approach to contemporary economic development aimed to meet the needs of the present population without compromising the ability of future generations to meet their needs. Thus, specific goals are set to meet development needs while enabling the environment to provide necessary resources and ecosystem services to humans.⁴ The social and environmental fundamentals of social sukuk render the instrument suitable for sustainable development projects which, for all intent and purpose, it seeks to promote. Therefore, following the Covid-19 pandemic and its upsetting of the global economic balance, revival efforts have brought about the use of social sukuk in socio-economic projects tailored for socio-economic development, restoring economic balance and sustainability among economies. Malaysian Sukuk Prihatin, Ihsan Sukuk, and Indonesian Cash waqf linked Sukuk (CWLS) are three social sukuk instruments that provided financing for these kinds of projects in the respective countries. Malaysia's Ihsan Sukuk and Indonesia's CWLS were launched before the Covid-19 pandemic to provide avenue for financial assistance and investment to rural schools and low-income earners respectively, its objectives supported the countries sustainable development efforts. Meanwhile, the pandemic was a catalyst in Malaysia for realigning the Sukuk Prihatin with the country's value-based intermediation (VBI) in Islamic financial institutions for the same purpose.

This paper is divided into the following sections. Section two which follows the foregoing introduction explains the objectives and methodology of the research. Section three reviews literature relevant to the research. Section four comprises of three parts which respectively discuss Malaysia's Sukuk Prihatin, Ihsan Sukuk, Indonesia's CWLS and comparison of these two social sukuk instruments. Section five examines sukuk and its nexus to sustainable development. Section six proffers recommendations and way forward on identified issues while the last section concludes the paper.

2. Objectives and Methodology of the Research

The objective of this research is to explore and understand social sukuk using case studies and provide recommendations on relevant issues for future social sukuk structure and issuance. The is exploratory in nature and employs a qualitative methodology with non-doctrinal and document analysis where documents are interpreted to give voice and establish meaning around a topic that is being investigated to provide tailor-made solution to practical problems.⁵ This involves analysing context and derived meanings of terms and themes with their implication on the conduct of particular action to understand the topic vis-à-vis a particular context.⁶ Thus, analyses of secondary data sources comprising published literatures relevant to social sukuk

² Keshminder, J. S., Abdullah, M. S., & Mardi, M. (2022). Green sukuk – Malaysia surviving the bumpy road: performance, challenges and reconciled issuance framework. *Qualitative Research in Financial Markets*, 14(1), 76-94.

³ Haji-Othman, Y., Abd Latib, M. F., Ahmad, M. N., & Hasnan, R. (2020). The role of Islamic social finance in reviving the economy during Covid-19 pandemic crisis. *International Journal of Muamalat*, 4(1), 147-152.

⁴ UN (n.d.). The Sustainable Development Agenda. Available at <https://www.un.org/sustainabledevelopment/development-agenda/>, accessed 30 May 2023.

⁵ Bowen, G. A. (2009). Document analysis as a qualitative research method. *Qualitative Research Journal*, 9(2), 27-40. DOI:10.3316/QRJ0902027

⁶ Mayring, P. (2015). *Qualitative content analysis: Theoretical background and procedures. Approaches to qualitative research in mathematics education: Examples of methodology and methods*, pp. 365-380.

and sustainable development were done and accordingly construed.⁷ This enabled proper examination and understanding of issues identified in implementing the structure and issuance of social sukuk for sustainable development.

3. Literature Review

Sukuk has been defined by the Securities Commission Malaysia as certificate of equal value evidencing undivided ownership or investment in the assets using Shariah principles and structures endorsed by the Shariah Advisory Council (SAC) (Securities Commission Malaysia, 2018).⁸ *Sukuk* is the Islamic alternative to financial bonds. To avoid interest and ensure investors obtain a return on their investment, issuance of a *sukuk* requires an exchange of a Shariah-compliant underlying asset for a financial consideration through the application of various Shariah contracts. In the case of CWLS, the *waqf* contract is applied.

Social sukuk is a type of investment instrument that provides financial results with focus on social and environmental concerns. Its aim is to develop social benefit and maintainable environment for the society via the sukuk investment. Social sukuk can thus be considered as a new type of public-private initiative aimed at providing social services and a funding mechanism.⁹ Inherent in the social sukuk's contractual arrangements are evaluation mechanisms and performance indicators that measure outcome of the service delivery. While literature is somewhat inadequate on such outcome metrics, in practice they are demanded by investors and decision-makers alike and the demand grows.¹⁰

As for *waqf*, it is a sustainable, ongoing charitable endowment. The Malaysia government official portal has defined and explained *waqf* as: '... a practice of surrendering owned property for the use and benefits of the public. *Waqf* is a religious act because the basic purpose of *waqf* is to be closer and gain the blessings of Allah by way of spending your wealth in the path to Allah. The *waqf* mechanism is a religious deed which has a strong religious foundation. Islamic laws scholars believe that *waqf* has 2 fundamental objectives: a) To contribute to the social development in a form of good deeds. b) The *waqf* payer shall receive perpetual benefit in this world and the hereafter.¹¹

Cash *Waqf*-Linked Sukuk (CWLS) is a combination of two Islamic instruments which individually have diametrically opposite objectives. It is the combination of *sukuk*, a for-profit Islamic capital market instrument, and *waqf* which is a philanthropic endowment for social causes. With the combination of these two instruments a new Islamic social finance instrument is created which mobilizes capital for public and social causes.¹²

⁷ Kyngas, H. (2020), 'Qualitative Research and Content Analysis. In Kyngas, H., Mikkonen, K. & Kaariainen, M. (Eds.). *The Application of Content Analysis in Nursing Science Research*, Springer, Cham, pp. 3-11.

⁸ Securities Commission Malaysia (2017). Growing Innovations in Islamic Capital Market, *Malaysian ICM*, January – June. Available at: <https://www.sc.com.my/api/documentms/download.ashx?id=98439e3a-df38-44f4-abf6-7d7831eeb5d7> (Accessed 30 May 2023).

⁹ Mohamad, S., Lehner, O., and Khorshid, A., (2016). A Case for an Islamic Social Impact Bond. *ACRN Oxford Journal of Finance and Risk Perspectives*, 5(2), 65-74.

¹⁰ Kassim, S., & Abdullah, A. (2017). Pushing the frontiers of Islamic finance through socially responsible investment sukuk. *Al-Shajarah: Journal of the International Institute of Islamic Thought and Civilization (ISTAC)*, 187-213.

¹¹ Government of Malaysia (2021), '*Managing Waqf*.' Government of Malaysia. Available at: <https://malaysia.gov.my/portal/content/27676> (Accessed 19 March 2023).

¹² Fauziah, N.N., Engku Ali, E.R.A., Md Bashir, A.A. & Bacha, A.M. (2021), 'An Analysis of Cash Waqf Linked Sukuk for Socially Impactful Sustainable Projects in Indonesia', *Journal of Islamic Finance*, (Special Issue), Vol. 10 No. 1, pp. 1–10.

Sustainable development has been variously defined, and the most often cited definition is the one provided by the Brundtland Commission Report¹³ which defines it as development that meets the needs of the current generation without compromising the ability of future generations to meet their own needs.¹⁴ Sustainable development entirely centres around inter- and intragenerational equity anchored essentially on three-dimensional distinct but interconnected pillars, i.e., society, economy and environment.¹⁵ In finance as well as every other human endeavour, these three are to be accorded inviolable consideration as cornerstone.

Need for social sukuk as financing instrument - While it is true that there is an improved system in terms of zakat collection and to new initiatives related to *waqf* among countries such as Malaysia and Singapore,¹⁶ these are mainly done by government agencies with very little participation from the private or social sector.¹⁷ Islamic civilisations have had rich history whereby the social sector was highly developed by the contribution from *waqf* much more than by the government funding. *Waqf* constituted for centuries civil society institutions par excellence for the Islamic world. The *waqfs* were established with private capital, which was often pooled, they were decentralized, autonomous decision making units involved in local and community issues. So unlike today's SRI and ESG and the *Shariah* compliant investment tools involving mainly screening process, *waqfs* in the Islamic tradition have had interesting elements of what we would today describe as shareholder or stakeholder engagements and community investment.¹⁸ Thus, there have been rising concerns and initiatives in both the Islamic and ethical space on alternative forms and models of finance, entrepreneurship and economic development. This illustrates an increasing interest globally to look at alternative ways of creating values which are more ethical and responsible and empowering the community and society at large. These led to new innovations of social sukuk for social financing, inclusive growth and sustainable development.¹⁹

4.1 An Overview of Sukuk Prihatin and Ihsan Sukuk, Malaysia

Sukuk Prihatin is a Malaysian government sukuk that was issued as part of the government's efforts towards recovery following the Covid-19 economic devastation which the world suffers since 2020. The sukuk is a subcomponent of a designed National Economic Recovery Plan termed in the Malay language as *Pelan Jana Semula Ekonomi Negara*, shortened as PENJANA which has three overall thrusts - empowering the people, propelling businesses and stimulating

¹³ Schaefer, A., & Crane, A. (2005). Addressing sustainability and consumption. *Journal of Macromarketing*, 25(1), pp. 76–92.

¹⁴ Borowy, I. (2014). *Defining sustainable development for our common future: A history of the World Commission on Environment and Development (Brundtland Commission)*. Routledge, pp. 1-14.

¹⁵ Mensah, J. (2019). Sustainable development: Meaning, history, principles, pillars, and implications for human action: Literature review. *Cogent social sciences*, 5(1), 1653531.

¹⁶ Ma'ruf, I. R., Jusuf, A. A., Al Jufri, R., Swastria, J., Supriadi, D., Rahayu, P. K., & Arifin, A. (2020). A Comparative Study on Zakat Management Law Practices between Malaysia and Indonesia. *International Journal of Science and Society*, 2(2), 328-341.

¹⁷ Migdad, A. (2019). Managing zakat through institutions: case of Malaysia. *International Journal of Islamic Economics and Finance Studies*, 5(3), 28-44.

¹⁸ Çizakça, M., (2015). The Waqf, its Basic Operational Structure, Development and Contribution. WIFE-UiTM Occasional Papers. WIEF Foundation and Universiti Teknologi MARA. 15-23.

¹⁹ Mohamed, S., Othman, J., Lehner, O., & Muda, R. (2017). Social sukuk: a new mechanism to fund social services. *Journal of Emerging Economies and Islamic Research*, 5(1), 69-81.

the economy.²⁰ Sukuk Prihatin aims to facilitate participation of Malaysians in shoring up post-recovery economic measures by the government. As such, money realised from the sukuk issuance was channelled to a Covid-19 Consolidated Fund and expended in development programmes that include rural schools connectivity, funding for small/micro enterprises (targeting women entrepreneurs) as well as grants for infectious diseases researches.²¹ Sukuk Prihatin was based on Shariah principle of *tawarruq* via commodity murabahah.²²

Sukuk Prihatin's nominal value initially targeted five hundred million ringgit Malaysia (RM500m). The sukuk was however oversubscribed by RM166 million and the government accordingly upsized the issuance to RM666.²³ Eligible subscribers or investors in this sukuk were as follows. Individual Malaysians aged 18 and above, entities incorporated and operating in Malaysia (save financial institutions), Capital Markets and Services entities engaged in fund management business as well as registered trustee of eligible subscribers/investors. Offered to both retail and corporate investors at a minimum subscription of RM500, the sukuk was subscribed from 18 August 2020 until 17 September 2020 and issued on 22 September. With an annual profit rate of 2%, paid quarterly, the two year-tenured sukuk matured on 22 September 2022. It is non-tradable, non-assignable and non-transferable sukuk.²⁴

Sukuk Prihatin was the first of its kind digital sukuk ever in Malaysia. Malayan Bank (Maybank) Berhad was its appointed and authorised primary distribution bank in accordance with extant laws. In the same vein, 27 other banks in Malaysia participated as authorised distribution banks and/or respective e-channels of applying for the sukuk. As a digital instrument, sukuk Prihatin was subscribed and/or invested in through the distribution banks' internet and mobile banking via JomPay and DuitNow channels.²⁵ Both JomPay and DuitNow are e-payment platforms operated by PayNet (Payments Network Malaysia Sdn Bhd), Malaysia's national payments network as well as shared central infrastructure for financial markets and related utilities. JomPay is a bill payment scheme that enables customers to pay any registered biller through mobile or internet banking by drawing money from savings, current and credit card accounts. By signing up with one bank, JomPay enables billers to be assigned a biller code and receive payments through 42 banks. DuitNow, for its part, enables instant payment to any bank account in Malaysia using a DuitNow ID which include mobile number, passport number, National Registration Identity Card (NRIC) number and other nationally approved means of identification.²⁶

²⁰ Ministry of Finance Malaysia, (2020), *PENJANA: Building the Economy together - Short-term Economic Recovery Plan June - December 2020*, available at: <https://penjana.treasury.gov.my/pdf/PENJANA-Booklet-En.pdf>, accessed 22 October 2020.

²¹ Ibid.

²² Tawarruq is a tripartite Islamic financing technique that involves buying of a Shariah-compliant commodity on deferred payment basis with a mark-up price from a seller and, on spot payment basis, the same commodity is sold by the buyer to a third party.

²³ Ministry of Finance Malaysia, (2020), *Sukuk Prihatin: From RM500 million to more than RM666 million; Proof of Malaysians' Solidarity in Supporting Economic Recovery Efforts*, Media Release, September 20, available at: <https://www.treasury.gov.my/index.php/en/gallery-activities/press-release/item/6984-media-release-sukuk-prihatin-from-rm500-million-to-more-than-rm666-million-proof-of-malaysians%E2%80%99-solidarity-in-supporting-economic-recovery-efforts.html>, accessed 30 May 2023. See also The Star, (2020, September 20), *Subscription to Sukuk Prihatin hits RM666m*, available at: <https://www.thestar.com.my/business/business-news/2020/09/20/subscription-to-sukuk-prihatin-hits-rm666m>, accessed 30 May 2023.

²⁴ Ministry of Finance Malaysia, (2020), *PENJANA: Sukuk Prihatin Knowledge Pack*, available at: <https://av.sc.com/my/content/docs/my-gom-sukuk-prihatin-knowledge-pack.pdf>, accessed 30 May 2023.

²⁵ Ibid.

²⁶ PayNet, (n.d.), *Who we are*, available at: <https://paynet.my/about-paynet.html>, accessed 30 May 2023.

Applicants/investors in the sukuk were required to have an account with any of the authorised distribution banks. The account must have mobile and/or internet banking access. This was in addition to an email address and contact number. For the purpose of subscription and payment via JomPay, the sukuk was assigned two biller codes, 14076 and 28670, the former for subscription and waiver of principal at maturity and the latter for subscription only. In DuitNow, the sukuk was assigned two Business Registration Numbers (BRN), SUKUKP20SUM and SUKUKP20PEL, instead of biller code. The former for subscription and waiver of principal at maturity and the latter for subscription only. Depending on either choice in both channels, applicant's savings/current accounts were deducted to the tune of amount payable for the sukuk units applied.²⁷

Sukuk Prihatin was, in essence, a dematerialised and scripless instrument. Investors were notified of the status and proof of application via email and on the screen of their devices upon completion of transaction which can always be accessed online from the banking platform of applicants' distribution bank. Subsequently, Subscription Notice was delivered via email at which point applicants were deemed sukukholders of the sukuk Prihatin. Likewise, the sukukholders are notified of a tax exempted profit payment and e-statement to that effect via email quarterly. Payment of profit is via General Interbank Recurring Order (GIRO) and it is directly credited to the sukukholders bank accounts on due date. On maturity date, final settlement of principal amount invested would be effected through the same channel and process by the primary distribution bank. Altogether, the proof of application, subscription notice and monthly e-statement constitute evidence of investment/ownership of the sukuk.²⁸

Ihsan Sukuk was launched in 2015, and was issued by Khazanah Nasional Berhad.²⁹ It is the first programme approved under the Securities Commission Malaysia (SC)'s Sustainable and Responsible Investment (SRI) Sukuk Framework ("Framework")³⁰. Ihsan Sukuk was fully subscribed through a day of book-building with participation from a diverse investor group including foundation, corporations, banks, pension fund and asset management companies with the proceeds channelled to schools under the Yayasan AMIR ("YA") Trust School Programme which is a not-for-profit foundation incorporated by Khazanah to improve accessibility to quality education in Malaysian public schools through a Public-Private Partnership (PPP) with the Ministry of Education³¹. Subscribers of Ihsan Sukuk had the option of waiving their rights,

²⁷ Ministry of Finance Malaysia, (2020), *PENJANA: Sukuk Prihatin Knowledge Pack*, available at: <https://av.sc.com/my/content/docs/my-gom-sukuk-prihatin-knowledge-pack.pdf>, accessed 30 May 2023.

²⁸ Ibid.

²⁹ 'The sukuk programme amounting to RM 1bn was priced at 4.3 per cent per annum with 25 years' tenure. It was launched by Ihsan Sukuk Bhd as the independent special purpose vehicle (SPV) and had been rated as AAA(s) by RAM Rating Services Bhd. The first tranche consists of RM 100m seven-year paper issued on 18 June 2015, and the proceeds was used to fund 20 schools under the Yayasan AMIR's Trust School Programme. This programme was established in 2010 through a public-private partnership between Yayasan AMIR, a non-profit organisation incorporated by Khazanah and the Malaysian Ministry of Education to improve the quality of learning and teaching in Malaysian Government schools.' (see section 3.3 of article) Noordin, N.H., Haron, S.N., Hasan, A. and Hassan, R. (2018), Complying with the requirements for issuance of SRI sukuk: the case of Khazanah's Sukuk Ihsan, *Journal of Islamic Accounting and Business Research*, Vol. 9 No. 3, pp. 415-433. <https://doi.org/10.1108/JIABR-02-2016-0024>

³⁰ SC, *Sustainable and Responsible Investment Sukuk Framework An Overview* (2014). Accessible at <https://www.sc.com.my/api/documentms/download.ashx?id=84491531-2b7e-4362-bafb-83bb33b07416>

³¹ Khazanah Nasional (4 June 2015). *Khazanah Issues World's First Ringgit-Denominated Sustainable and Responsible Investment Sukuk*. Accessible at https://www.khazanah.com.my/news_press_releases/khazanah-issues-worlds-first-ringgit-denominated-sustainable-and-responsible-investment-sukuk/

benefits and entitlement, where 17% of these subscribers chose to forgo their nominal amount payable and periodic distribution of the First Sukuk Ihsan³².

The sukuk was unique in that the objectives involved the fulfilment of predefined key performance indicators (KPIs),³³ if these KPIs were fulfilled then the investors would forgo a portion of their capital on redemption, the maximum amount was set 6.22%. If the KPIs were not met then the investors would receive the full nominal value of their investment. In fact when the First Sukuk Ihsan was redeemed at RM100,000m on June 2022, Khazanah as the obligor enjoyed a 6.22% reduction on the redemption amount, being the nominal value of the First Sukuk Ihsan. The sukukholders have received tax vouchers equivalent to the reduction in nominal value.³⁴

4.2 An Overview of Cash Waqf Linked Sukuk (CWLS), Indonesia

Indonesia pioneered the introduction and implementation of CWLS in 2020 originally to support its National *Waqf* Movement which aims to assist in the development of social investment through productive *waqf* in the country.³⁵ CWLS was used to meet the Indonesian government's short-term investment needs, especially the construction of social facilities/infrastructure and other social causes beneficial to the public.³⁶

Under the Indonesian CWLS structure and program, several parties and/or stakeholders were involved, namely: (i) *Waqif* as the donor who donated the funds, either temporarily or permanently; (ii) the Ministry of Finance as the *Sukuk* issuer; (iii) *Badan Wakaf Indonesia* (BWI) (*Waqf* Board Indonesia) as the *Waqf* Supervisor and *Nazir*; (iv) LKS PWU [Lembaga Keuangan Syariah Penerima Wakaf Uang] (Islamic financial institutions receiving cash waqf) and non-LKS PWU (non-Islamic financial institutions), that collected the cash *waqf* from the *waqifs*, and are the *nazir* partner whose role is to raise funds; (v) BWI [Badan Wakaf Indonesia] (Indonesia Waqf Board) Partners who manage the *Waqf* Assets financed from the *Sukuk* discount and coupon payments; (vi) Other BWI Partners who distribute the *Sukuk* coupons to beneficiaries or social causes regularly.³⁷

At the very outset, an MOU was signed between the BWI, Bank Indonesia, Ministry of Finance, Ministry of Religious Affairs with the intention of commitment and cooperation among the stakeholders.³⁸ The table below states the role of the various stakeholders.

³² RAM Ratings (17 June 2022). *Ihsan Sukuk Redeems RM100 Mil First SRI Sukuk*. Accessible at <https://www.ram.com.my/pressrelease/?prviewid=6016>

³³ Noordin, N.H., Haron, S.N., Hasan, A. and Hassan, R. (2018), Complying with the requirements for issuance of SRI sukuk: the case of Khazanah's Sukuk Ihsan, *Journal of Islamic Accounting and Business Research*, Vol. 9 No. 3, pp. 415-433. <https://doi.org/10.1108/JIABR-02-2016-0024>

³⁴ Ibid.

³⁵ Hafandi, A., & Handayati, P. (2021), 'Is Cash Waqf Linked Sukuk (CWLS) Less Than Ideal According to Islamic Laws?', *Studies of Applied Economics*, Vol. 39 No. 12, pp. 1-16.

³⁶ Fad, M.F. (2021), 'Waqf Linked Sukuk Dalam Perspektif Maqashid Syari'ah', *Journal of Islamic Studies and Humanities*, Vol. 6 No. 1, pp. 44-62. Available at <https://journal.walisongo.ac.id/index.php/JISH/article/view/8150/pdf> (Accessed 22 March 2023).

³⁷ Bank Indonesia (2021), *Cash Waqf Linked Sukuk Annual Report 2021*, Bank Indonesia, Jakarta. Available at: <https://www.bi.go.id/id/edukasi/Documents/Laporan-Tahunan-Cash-Waqf-Linked-Sukuk-2021.pdf> (Accessed 24 March 2023).

³⁸ As the Bank Indonesia Stated "CWLS was developed with government support and commitment along with other relevant authorities in relation to the Islamic social finance sector in Indonesia. The joint commitment was contained in a Memorandum of Understanding (MoU) between the Ministry of Finance, Ministry of Religious Affairs, Bank Indonesia and BWI concerning cash waqf asset management through development of waqf-linked sukuk on 1st November 2018, which facilitated

Table 1: Role of Different Authorities/Institution in Indonesia's CWLS Implementation

Institution	Role
BWI	Single buyer Sukuk Wakaf Indonesia (SWI) Transaction operationalisation with Ministry of Finance and LKS-PWU Design of CWLS business model/instrument Determine <i>nazir</i> partner and the allocation of the CWLS returns Formulated CWLS marketing program
Bank Indonesia	Recording SWI in Bank Indonesia – Scripless Securities Settlement System (BISSSS) Design of CWLS business model/instrument Facilitator of product marketing and training of trainers/communication process with Indonesian Council of Ulama (MUI) concerning the Shariah perspective of the first CWLS issue
Ministry of Finance	Issuer of SWI Design of CWLS business model/instrument Setting the corpus benefit of waqf Facilitator of product marketing and training of trainers
Islamic financial institutions	Settlement of waqif/investor transactions Facilitation of investment in CWLS CWLS product marketing

The roles of each stakeholder, as depicted above, clearly shows how the various institutions cooperated for the successful deployment of the CWLS for social and/or developmental causes. The structure of CWLS is shown in the Figure below:

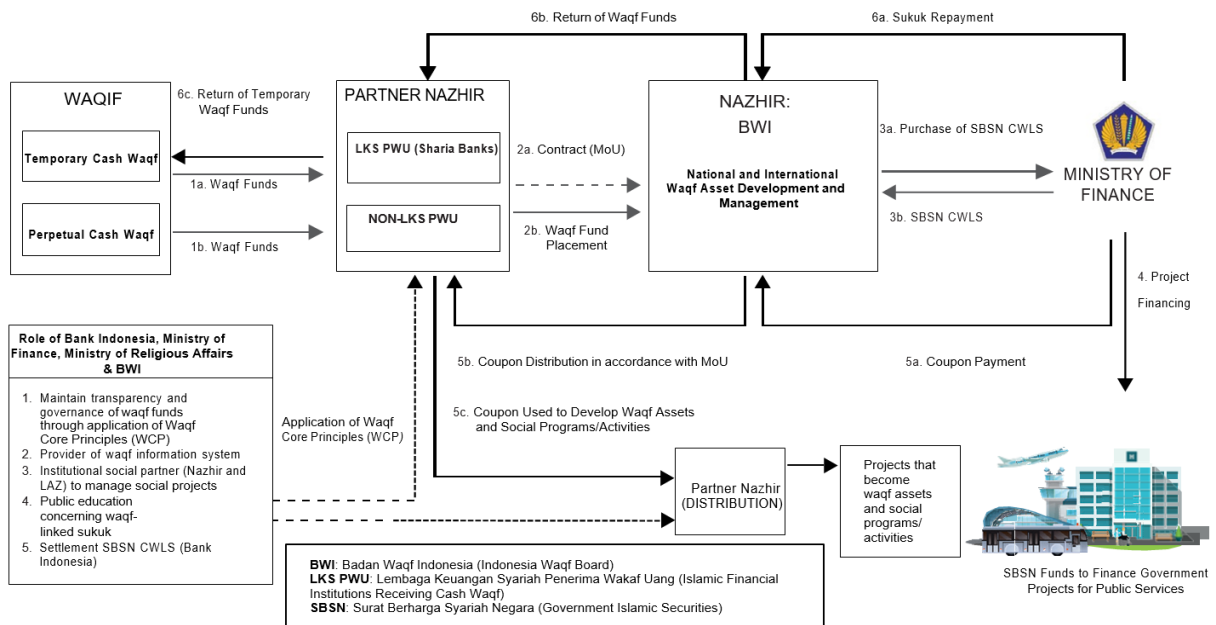


Figure 1: Structure of CWLS

collaborative management and development of cash waqf through Government Islamic Securities (SBSN)” (Bank Indonesia, 2021, p. 27).

Based on the above structure, the following is the flow of events:

1 a & b: Waqf funds are donated by the *wakif* who may choose the temporary or permanent cash *waqf* option. LKS PWU (Islamic financial institution) and non-LKS PWU (non- Islamic financial institutions) are the *nazir* partners that collect the cash *Waqf* from the *waqifs*.

2 a & b: The *nazir* partner whose role is to raise funds then enters into a MOU with the *nazir* - the Indonesian Waqf Board (BWI), and places the funds with BWI.

3 a & b: BWI buys the sukuk or Government Islamic Securities (SBSN) from the Ministry of Finance with a private placement mechanism; *sukuk* ownership documents are given to BWI.

4: The funds received by the government from CWLS issuances are subsequently used to fund government projects for public services. At this stage, in its capacity as SBSN administrator, Bank Indonesia records the ownership and engages in SBSN clearing and settlement.

5 a b & c: The government paid the return to BWI in the form of a discount or coupon, which was distributed to the *nazir partners* to fund social projects or activities. The initial discount received at the beginning of the investment is used to develop the waqf asset, such as a religious school, health clinic and social infrastructure. Discount received from the first CWLS series was used for medical equipment and building development for an eye hospital in Serang, Banten (Bank Indonesia, 2021). The coupon received periodically was used to implement nonphysical social programs, such as those targeting orphans and the poor, free healthcare, economic empowerment for those towards the bottom of the pyramid and other social programs. Coupon received from the first CWLS series was used for operational purposes in eye hospital in Serang, Banten. Investment in CWLS generates competitive returns because BWI was tax-exempt.³⁹

6 a b & c: At maturity the Ministry of finance repays the cash to the BWI who refunds the temporary cash waqfs to the *nazir* partners who will return it to the donors who opted for temporary waqf, or it is further managed by BWI in the case of a permanent cash waqf (Bank Indonesia, 2021; Badan Wakaf Indonesia, 2021).

From this CWLS structure, the donors were not to exclusively get a return on their investments in terms of financial gains. Where the donors so intended, they may even forgo the principal if the cash waqf is permanent. The objective of the donors was largely to earn spiritual rewards. The cash donated was used to fund the sukuk projects designated by the Indonesian government in the improvement of public infrastructure and other amenities and the proceeds were used in the development of waqf assets for the benefit of beneficiaries (Hosen et al., 2022; Maulina, 2022). These are among the social and economic benefits that Indonesia has derived from the CWLS, whereby the donors and beneficiaries alike obtained both monetary and spiritual benefits under it. It is noteworthy from the CWLS structure that a

³⁹ Bank Indonesia (2021), *Cash Waqf Linked Sukuk Annual Report 2021*, Bank Indonesia, Jakarta. Available at: <https://www.bi.go.id/id/edukasi/Documents/Laporan-Tahunan-Cash-Waqf-Linked-Sukuk-2021.pdf> (Accessed 24 March 2023); Badan Wakaf Indonesia (2021), *Risk Management in Cash Waqf Linked Sukuk Based on the Waqf Core Principle: A Preliminary Study – BWPS No. 07 2021*, Badan Wakaf Indonesia, Jakarta. Available at: <https://www.bwi.go.id/7342/2021/09/30/risk-management-in-cash-waqf-linked-sukuk-based-on-the-waqf-core-principle-a-preliminary-study-bwps-no-07-2021/> (Accessed 24 March 2023).

centralised waqf administration system is crucial in establishing the harmony and cooperation needed among all the stakeholders of the CWLS which made it successful.⁴⁰

4.3 Comparison of Sukuk Prihatin, Ihsan Sukuk and Cash Waqf Linked Sukuk

It is notable that issuance of retail sukuk today is not only for commercial purpose but also social objectives. This was how both the Cash Waqf Linked Sukuk (CWLS) in Indonesia and Sukuk Prihatin in Malaysia were developed and implemented. However Ihsan sukuk was an issuance which involved institutional investors and the investors enjoyed tax deductions.

The issuance of CWLS was intended to facilitate temporary and permanent cash waqf to be placed in safe and productive investment instruments as well as to support the development of social investment. The first series of CWLS was issued on November 26, 2020, and raise IDR 14.9 billion. Meanwhile, Sukuk Prihatin was issued by the Malaysia Government to support its post covid-19 national economic recovery plan. The first series of Sukuk Prihatin was issued on August 2020 and managed to raise RM 666 million. While Ihsan Sukuk was issued for the sole purpose of raising capital to support Khazanah's corporate social responsibility efforts.⁴¹ Additionally, the full subscription rate for Ihsan Sukuk taken up in only one day whereby the funds were utilised for educational initiatives, this indicates the levels of investor interest in supporting public education and this would fit nicely in the existing agenda of waqf for education which has already established a firm foothold in Malaysia⁴².

These three types of social sukuk served as an alternative to financing economic recovery after the Covid-19 pandemic in the respective countries.⁴³ The case studies in this review demonstrate practical solutions to finance sustainable development and ameliorate the adverse impact of the Covid-19 pandemic. In particular, the integration among sukuk and waqf as Islamic social finance tool, with modern establishments and financial instruments.⁴⁴

5. Issues for consideration in social sukuk for Sustainable Development

Structuring a social sukuk requires careful identification of a desired social outcome and turning it into a *Shariah* compliant product may raise *Shariah* issues that require careful investigation and coming up with a *Shariah* resolution. Here, issues to consider for example, include if the social sukuk is to be structured, what is the underlying asset and what kind of

⁴⁰ Maulina, R. (2022), 'Factors Influencing the Success of Retail Cash Waqf Linked Sukuk (CWLS) Issuance: A Lesson from Indonesia', *Journal of King Abdulaziz University: Islamic Economics*, Vol. 35 No. 1, pp. 57-74.

⁴¹ RAM Ratings (17 June 2022). *Ihsan Sukuk Redeems RM100 Mil First SRI Sukuk*. Accessible at <https://www.ram.com.my/pressrelease/?prviewid=6016>

⁴² L. Azha, S. Baharuddin, Sayurno and S.S Salahuddin (2013), *The Practice and Management of Waqf Education in Malaysia* (Procedia - Social and Behavioral Science, Vol. 90, pp. 22-30). Accessible at https://www.researchgate.net/publication/280289256_The_Practice_and_Management_of_Waqf_Education_in_Malaysia

⁴³ Nawai, N., Khairi, K. F., Abdul Hamid, S., Nazri, M. A., Ramli, N. A., Abd Aziz, S., Ibrahim, M. A., & Abdul Shukor, S. (Eds.). (2022). e-Proceedings of The 10th Islamic Banking, Accounting and Finance International Conference 2022 (iBAF2022): "Future-Proofing for Business Excellence Through Islamic Banking, Accounting and Finance." Universiti Sains Islam Malaysia. <https://fem.usim.edu.my/ibaf2022-proceeding/>

⁴⁴ Kasri, N. S., Bouheraoua, S., & Mohamed Radzi, S. (2023). Maqasid al-Shariah and Sustainable Development Goals Convergence: An Assessment of Global Best Practices. In *Islamic Finance, FinTech, and the Road to Sustainability: Reframing the Approach in the Post-Pandemic Era* (pp. 59-105). Cham: Springer International Publishing.

Islamic contract can be used? Is it acceptable that the delivery of a social service outcome be turned into a financial product that gives returns when social projects could simply be financed directly using the traditional *waqf*, charity and endowment funds? An obvious motivation is that a financial instrument like sukuk could offer a productive and efficient way of using government or charity funds because success outcomes are carefully defined, measured and rewarded. Social sukuk are often structured and issued based on an expectation of some calculated cost savings that provide a justification for the use of these instruments and calls for an initial investment to have these tools as part of government's financing mode.⁴⁵ One complication and challenge to structuring a social sukuk is the identification of a *Shariah* contract or a multiple of *Shariah* contracts that can be used to raise the funding. However since *Shariah* compliant sukuk capital market is rather established and market jurisdictions such as Malaysia and the Gulf are renowned for structuring innovative and landmark sukuk, structuring social sukuk can be seen as further extensions in this market.⁴⁶

6. Findings, recommendations and way forward

Social sukuk presents a collaborative stakeholder model for financing that enhances efficiency. Among the benefits include provision of sustainable funding that can be used for delivery of social services while promoting risk sharing among stakeholders so that the burden does not fall only on the government as a service provider. This structure/new model helps to spur innovations for solutions to social problems that otherwise might be too costly and too risky for governments to undertake. Thus, the securitization of social programs whose performance is driven by measurable social outcomes is welcomed as a new alternative investment asset class that has low correlation to the conventional markets.⁴⁷

However, analysis in this review finds an absence of deep knowledge on existing challenges and available opportunities in the realm of social sukuk. The potential of social sukuk needs to be explored in emerging Islamic finance jurisdictions. Also, more governments need to be encouraged to issue social sukuk in the future and develop innovative instruments in this regard. There is a lack of empirical studies evaluating the effectiveness of social sukuk in solving the intended social problems; very scarce innovative social sukuk instruments are so far developed to tackle social problems. There is need for micro-level data to understand, assess and enhance public-private partnership to increase service quality in solving social issues via social sukuk. Moreover, academia-industry social sukuk research is needed via quantitative study to investigate the performance of social sukuk from the financial risk-return and social-sustainability return perspectives. Lack of global standardized impact assessment methodology and KPI to assess the effectiveness of the project and use of proceeds will hinder social sukuk proliferation. In addition, there is need for standardized regulation and incentives following the Malaysia and Indonesia models of social sukuk. Thus, based on these models, local and international regulators should adopt standardized regulations and incentives to attract institutional and retail investors. The aim of developing social sukuk is to propagate a sustainable and inclusive social financing system. The findings and recommendations of this

⁴⁵ Mohamed, S., Othman, J., Lehner, O., & Muda, R. (2017). Social sukuk: a new mechanism to fund social services. *Journal of Emerging Economies and Islamic Research*, 5(1), 69-81.

⁴⁶ Ibid.

⁴⁷ Morea, D. and Poggi, L.A. (2017). An innovative model for the sustainability of investments in the wind energy sector: the use of green sukuk in an Italian case study. *International Journal of Energy Economics and Policy*, Vol. 7 No. 2, pp. 53-60.

research would primarily benefit researchers and policymakers since social sukuk is in the early stage of development.

7. Conclusion

Innovations in Islamic social finance for sustainable development provide for timely initiatives that spur the development of more Shariah compliant financial instruments that combine financial and social returns which at the same time help expand the horizon of Islamic products. Product development based on the social sukuk and the development of new business models for the social sector built on the traditional waqf are much needed by the Islamic finance industry to attract new Islamic investors including ethical and responsible investors, philanthropists and institutional investors with social mandates. This transformation increases the social investor base that will help promote social capital, growth with distribution and social stability in society. The development and implementation of Sukuk Prihatin, Ihsan Sukuk and Cash Waqf-Linked Sukuk in Malaysia and Indonesia respectively is considered pioneer in contemporary efforts that provides impetus for sustainable development in the respective jurisdictions. However, stakeholders of the Islamic social finance sector need to be mindful of and direct efforts towards addressing the issues that pertains to the structure and issuance and of social sukuk as identified in this research.

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