CEGF

Resilience Development Initiative

POLICY BRIEF COMPETITION OUTPUT

Integration of Waqf-based Sustainable Financing in The Agricultural Sector: Toward National Food Security

RDI Policy Brief, No. 1 (CEGF) 20230201

This work is an output of the CEGF and RDI Policy Brief Competition. The views expressed are those of the authors and do not necessarily reflect the views of CEGF and RDI

Summary

Cash waqf can be a low-cost means of financing for farmers. In implementing the financing model, nazhir (waqf asset manager) collaborates with the Ministry of Agriculture to prepare training and support for agricultural tools and equipment. Sharia-based financing is implemented by buying and selling contracts with payment in advance and commodities delivered at harvest (*Salam* scheme/forward sales with advance payment). Nazhir has purchased commodities that are then sold to off-takers who have previously been appointed in coordination with the Ministry of Agriculture. In order to mitigate the risk, some of the profits from waqf funds are used to pay insurance schemes and or guarantors. Other profits are channeled in the form of support in socio-economic activities and for reinvestment. It is hoped that this model, in particular, can become an alternative to sustainable financing and have implications for increasing the welfare of farmers and national food security.

Farmers Access to Financing

Concerning financing accessibility, agriculture is still categorized as a sector with high risk for formal financial institutions. Unfortunately, as a sector that enormously contributes to the national economy, especially in employment, few small farmers in remote areas still need help to access the financing. Administrative requirements and the obligation to submit collateral/guarantee are still a classic problem for farmers, most of whom are un-bankable (Ministry of Agriculture, 2015, 2020; Moh'd, Omar Mohammed, & Saiti, 2017).

Based on the 2016 National Socio-Economic Survey (SUSENAS), only about 15 percent of a total sample of 8,000 farmers could access bank credit. The majority of 52% percent of farmers still rely on their capital, cooperatives, families, and other non-bank financial institutions, and the remaining 33% of farmers rely on credit from the National Community Empowerment Program (PNPM) and people's enterprise credit (Known as KUR: Kredit Usaha Rakyat) (Kementerian Pertanian, 2020). Meanwhile, although reliable, the realization of overall KUR distribution from 2016-2019 was only 21.71% (an increase of +- 5% from the previous year) with a nominal value of IDR 30.4 trillion and a total of 1,279,058 debtors (Kementerian Pertanian, 2020).

Responding to those issues, as one of the instruments of sustainable social finance, waqf has great potential as an alternative to financing the agricultural sector to achieve food security (no poverty and zero hunger) as the goals in Sustainable Development Goals (SDGs). Data from the Ministry of Religion states that Indonesia's potential for cash waqf reaches IDR 180 trillion annually (BWI, 2022; Kominfo, 2022).

Rifaldi Majid
Lecturer, Department of Economics and Development Studies, Faculty of Economics and Business, Diponegoro University

Therefore, waqf can strategically play a role as a tool to achieve financial inclusion in the socio-economic sector (Shaikh, Ismail, & Mohd Shafiai, 2017), including in the agricultural sector, which is the livelihood of many people (Azganin, Kassim, & Adam, 2021; Azizan, Muhamat, Alwi, Ali, & Abdullah, 2021; Majid, 2022).

Agricultural Risks and The Potential of Waqf Financing

Limited inclusive financing for small farmers in rural areas also affects economic stability, reflected in the drive to increase poverty rates as well as reducing employment, production scale, and food security rate (Ministry of National Development Planning, 2015; Ministry of Agriculture, 2020; Supriatna, 2009). From an economic standpoint, data from the Central Bureau of Statistics as of March 2022 reveals that 49.89% of poor households in Indonesia depend on the agricultural sector (Badan Pusat Statistik, 2022). This classic problem is one of the things made a concern by the ministry of agriculture in its strategic plan for 2020-2024, namely regarding the development and strengthening of financing followed by an increase in agricultural infrastructure and facilities (Ministry of Agriculture, 2020).

Many studies note that in addition to high natural and weather risk factors in the agricultural sector, farmers are generally categorized as unbankable from the subject/actor perspective (Majid, 2021; Supriatna, 2008). Generally, financing offered to farmers requires collateral in the form of land, securities, gold/jewelry, and other valuables. Even if financing is based on trust, which non-formal financial institutions usually provide, the interest rates are very high (Ashari & Saptana, 2016; Supriatna, 2008, 2009). This condition has become a boomerang for farmers because there need to be sure about the absorption of harvested commodities. In contrast, they should pay high principal and interest rates during the harvest season.

The above conditions have micro and macro impacts. On a micro-scale, limited access to finance will reduce production capacity, reducing farmers' income. On a macro level, this has resulted in a decline in total production and low distribution and supply of agricultural commodities, which can affect national food security. However, this limited access to financing dramatically affects productivity, which has a significant and long-lasting domino effect on increasing the welfare of farmers, poverty alleviation, as well as national food security (Twumasi, Donkoh, & Ansah, 2020).

Facing this, in many scientific studies, cash waqf has been proven to be a source of low-cost financing (zero cost of funds). Many studies have proposed innovative waqf-based financing models to finance farmers and procure agricultural tools and equipment (Ahmad, 2018; Azganin et al., 2021; Khan, Ghafoorzai, Patel, & Shehbaz, 2021; Majid, 2021; Moh'd et al., 2017; Ningrat & Nurzaman, 2019; Olaniyi, Thaker, Thaker, & Pitchay, 2014; Shafiai, Moi, & Ahmad, 2015).

Literally, waqf comes from Arabic, defined as al-habs, which means to hold and al-man'u, which means to block (AAOIFI, 2017). In terms, waqf is interpreted as a charity that produces a stream of benefits expected to be stable and permanent (essentially fixed) (Obaidullah, 2015). In Indonesia, waqf is growing fairly rapidly. Data from the Ministry of Religious Affairs of the Republic of Indonesia as of 2023 states that Indonesia has 440,512 locations of waqf land with an area of 57,263.69 hectares. (SIWAK Ministry of Religious Affairs, 2022).

Meanwhile, the development of cash waqf is also growing. Data from the Indonesian Waqf Board (BWI) stated that the potential for cash waqf in Indonesia reaches 180 trillion annually (BWI, 2022). From an institutional perspective, BWI data as of October 2021 stated that there are 305 institutions permitted as nazhir of cash waqf institutions throughout Indonesia. Based on this number, several well-known universities such as Airlangga University in Surabaya, UIN Syarif Hidayatullah Jakarta, UIN Sunan Kalijaga Yogyakarta, IPB University in Bogor, Institute of Technology 10 Nopember in Surabaya, also has particular institutions under the university that act as nazhir cash waqf (BWI, 2021).

This tremendous potential, supported by the growing institutional infrastructure, can continue to advance. It is because consider Indonesia's position, which in the last five years since 2017 has been named the most generous country in the world. During 2021, more than 8 out of 10 people in Indonesia donate money to social causes. In addition, more than 6 out of 10 people volunteered their time (Charities Aid Foundation, 2022).

Based on the explanation above, which was then corroborated by in-depth interviews with expert respondents who are regulators, academics, and practitioners in the agricultural and waqf sector nationally, this policy brief article attempts to design a cash waqf-based agricultural financing model.

The following is an overview of the proposed sustainable financing model integrated with waqf funds to support the agricultural sector and achieve national food security.

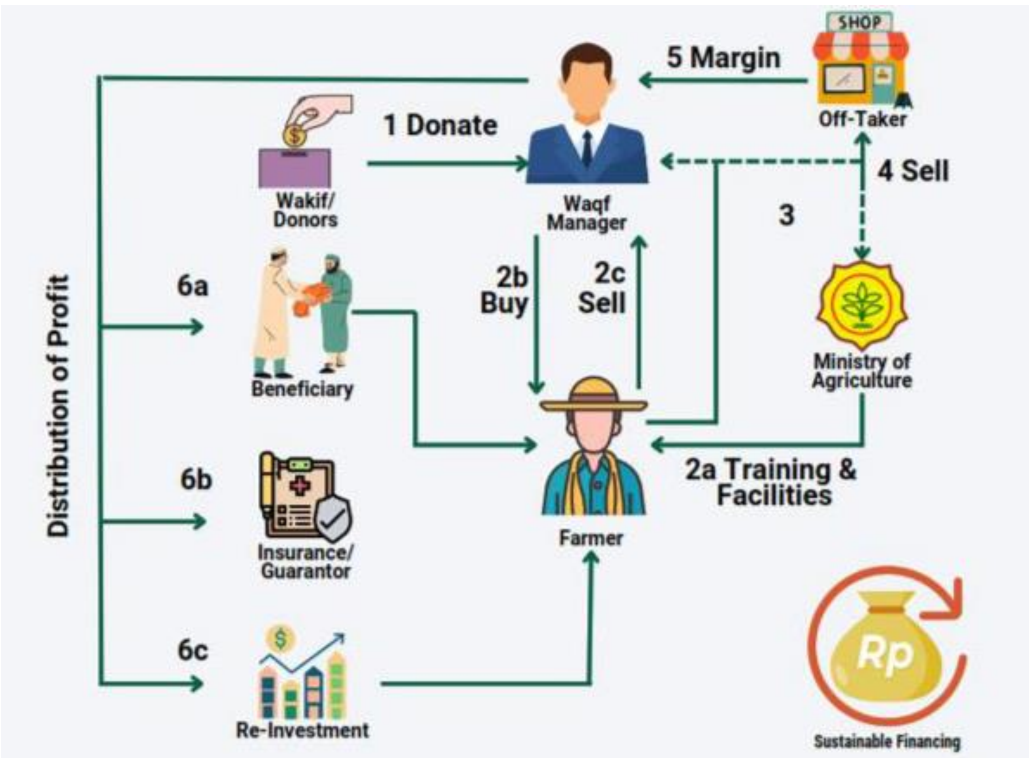

Figure 1. Proposed Sustainable Financing Model Utilizing Wakaf
Source: Author Analysis, developed from previous research and FGD

Explanation of the Proposed Model

1) Wakif (donors), which can be individuals/institutions channel their waqf funds through a digital platform to the nazhir (waqf asset manager). The type of cash waqf distributed can be in the form of temporary waqf or permanent waqf. With temporary waqf, waqf funds will be returned when the project or financing has been completed.

2) Waqf funds are managed directly to the real sector, where nazhir (waqf asset manager) acts as an entrepreneur. Therefore, to prepare it, the ministry of agriculture is present to provide training and support facilities in the form of providing agricultural tools and equipment such as seeds, fertilizers, and so on (2a). Nazhir enters into a sharia-based financing contract (a sale and purchase scheme with margin or with the Salam scheme where payments are made upfront and the commodities are handed over to the farmers at harvest) to the farmers (2b). After the harvest, the farmer hands over the crop that Nazhir bought (2c).

3) Nazhir has coordinated with the Ministry of Agriculture to appoint off-takers ready to absorb farmers' crops that Nazhir has previously purchased. Off-takers, in this case, can be farmer cooperatives, farmer groups, SME actors, supermarkets, or even government-owned enterprises at the national or regional level that need agricultural raw materials. On a smaller scale, an off-takers appointment will involve village officials and institutions.

4) Off-takers make payments in cash.

5) Profits from this business scheme are distributed by Nazhir for several posts. A portion of the profit of X% is channeled to socio-economic activities, where the beneficiaries include farmers (6a). Thus, farmers, in this case, get two advantages at once; the first is to absorb their harvest at the beginning and acquire material and non-material assistance in the form of subsidies and or capacity building from the benefits of waqf proceeds.

   At the same time, Y% is used to pay for insurance (6b). Insurance payments under sharia principles are intended to protect the cash waqf principal so that it does not decrease due to unexpected losses.

   In addition, Z% (6c) is to be reinvested after being set aside as profits as reserves loss. In this way, the scheme of financing will be sustainable.

Risk Mitigation of The Proposed Model

Risk Mitigation of the proposed model can be done through several things, including the following:

1) Doing the feasibility Study of Comprehensive Financing Object
   The basic step that needs to be taken as an effort to mitigate risk before the distribution of financing is carried out is to conduct an initial screening in the form of a feasibility study on the farmers to be financed, both in terms of business performance and also from the sharia side, namely the readiness of farmers to use product operations and transactions that are not violating sharia provisions.

The next thing, Nazhir needs to appoint internal and external professional/committees (supervisory boards) who are responsible for business feasibility, personal checks and reviews of fundraising procedures and sources of cash waqf funds received, determining what model and type of contract are appropriate to use, ensures application transactions in the field following sharia guidelines, as well as conducting supervision and evaluation from the financial side, and all transactions that will be carried out to be in line with sharia principles (Azganin et al., 2021).

2) Use of Islamic Insurance/Kafil (Guarantor)
In this case, Nazhir must prioritize the protection of the cash waqf principal as the primary goal by collaborating with related parties to ensure the integrity of the cash waqf principal used in financing (Azganin et al., 2021). This is in line with the BWI regulation no. 1 of 2020 concerning Guidelines for the Management and Development of Waqf Assets as well as suggested and supported by all respondents.

3) Gradual Reserve Fund
Risk mitigation efforts through reserve funds can be carried out by two actors in the financing scheme: nazhir and farmers. In this case, Nazhir, each with PBWI No. 1 year 2020, can reserve funds from a maximum cash waqf surplus of 40%.

Meanwhile, concerning farmers, the provision of funds can be made from the profits obtained from the previous harvest or a specific percentage allowance for the Salam price (commodity payment) received at the beginning.

4) Restructuring of Financing using other social funds (Zakat, Charity, and Alms)
In the event of crop failure and or a decrease in selling prices, causing farmers to find it difficult to make installment payments on delayed purchases and or leases on agricultural equipment, what can trick it by providing easy gains in the form of deferral of payments (restructuring/rescheduling) without any additional nominal debt.

However, if the farmers have not been able to repay their obligations, the last option that can be sought is to cooperate with the Zakat, infaq, and alms (ZIS) institutions so that the farmers' obligations can be covered with these sources of funds. Then, in the case of using the Salam contract, the delay in delivery can also be treated as a time delay. Meanwhile, suppose there is a crop failure. In that case, it can be circumvented by confirming the exchange with other commodities also approved and needed by Nazhir.

Policy Implication and Recommendation

Implementing the waqf-based sustainable financing alternatives above can be realized through the initiative and collaboration of many stakeholders.

1) The Government, in this case, the Ministry of Agriculture, can collaborate with BAPPENAS to initiate the use of waqf instruments and their institutions as an alternative to financing agriculture (especially rice crops) which is also an indicator and reference for national development.

2) In particular, the Ministry of Religious Affairs, as the regulator (which is also a representative of the Government), can synergize with the Indonesian Waqf Board (BWI) in terms of issuing rules or regulations regarding waqf financing in the agricultural sector. With BWI, the Ministry of Religion can also encourage fundraising or crowdfunding efforts specifically for cash waqf for waqf-based agricultural projects by involving relevant stakeholders such as the Ministry of Agriculture, BAPPENAS, Ministry of Finance, and other related Ministries, the Productive Waqf Forum, crowdfunding-based sharia FinTech, and their associations. In real terms, this collaboration has the potential to be realized through the instrument of Sukuk al-intifa' as has been practised in several OIC countries. The difference is that the type of Sukuk issued is specifically for financing agricultural projects. Also included is the review of the waqf-linked Sukuk specifically for the agricultural sector.

3) BWI, in this case, is expected to continue encouraging productive waqf empowerment innovations, especially in the agricultural sector as a vital industry. This policy can be started by recording nazirs who empower and finance the agricultural sector in terms of concepts, implementation, and evaluations that have been carried out. After that, document the portfolio and publish it as lessons learned for other nazhirs or as an effort to encourage innovations in empowering waqf in the agricultural sector and other sectors.

4) Nazhir waqf can collaborate to design 'collaborative projects' to finance micro and small farmers who are vulnerable to limited access to finance by adopting the model proposed by the author. Nazhir waqf can also increase his professional potential and capacity in managing waqf assets (money), including by increasing collaboration with relevant stakeholders in the agricultural sector.

5) Farmers' associations and/or associations need to collaborate with waqf institutions (mainly) and ZIS to jointly design patterns of inclusive empowerment for small and poor farmers. In addition, farmer associations within existing agricultural institutions also need to make efforts to position the appropriate parties to act as off-takers/standby buyers.

6) Academics can also increase the quantity of research related to this by directly following the pilot project implementation process by cooperating with relevant stakeholders. Likewise, further research on the design of agricultural financing models through other Islamic financial institutions (banking, capital markets, or microfinance) is strongly needed. It is required considering that there are few unique financing products for the agricultural sector as the largest absorber of labor in Indonesia.

References

AAOIFI. (2017). Shari'ah Standards (Full Text of Sharia'ah Standards for Islamic Financial Institutions As at Safar 1439 A.H - November 2017 A.D). Manama: The Accounting and Auditing Organization for Islamic Financial.

Ahmad, M. (2018). A Proposed Integrated Temporary Cash Waqf and Salam For Agri-Financing For Rice Farmers in Indonesia. International Journal of Islamic Economics and Finance Research, 1(2), 31–43.

Ashari, A., & Saptana, S. (2016). Prospek Pembiayaan Syariah untuk Sektor Pertanian. Forum Penelitian Agro Ekonomi, 23(2), 132. https://doi.org/10.21082/fae.v23n2.2005.132-147

Azganin, H., Kassim, S., & Adam, A. (2021). Proposed waqf crowdfunding models for small farmers and the required parameters for their application. Islamic Economic Studies, ahead-of-p(ahead-of-print). https://doi.org/10.1108/IES-01-2021-0006

Azizan, N. A., Muhamat, A. A., Alwi, S. F. S., Ali, H., & Abdullah, A. Q. C. (2021). Revitalising Waqf (endowment) lands for agribusiness: potentials of the anchor company models. Journal of Agribusiness in Developing and Emerging Economies, ahead-of-p(ahead-of-print). https://doi.org/10.1108/JADEE-05-2021-0128

Badan Pusat Statistik. (2022). Karakteristik Rumah Tangga Menurut Status Kemisikinan 2021-2022. Retrieved January 23, 2022, from bps.go.id website: https://www.bps.go.id/indicator/23/207/1/karakteristik-rumah-tangga-menurut-status-kemisikinan.html

Badan Wakaf Indonesia. (2021). Data Nazhir Wakaf Uang yang Terdaftar di Badan Wakaf Indonesia Per 31 Oktober 2021. Jakarta. Retrieved from https://www.bwi.go.id/7443/2021/11/04/update-daftar-nazhir-wakaf-uang-sampai-oktober-2021/

BWI. (2022). Potensi Wakaf Uang Tingkatkan Kesejahteraan Pascapandemi. Retrieved January 10, 2023, from bwi.go.id website: https://www.bwi.go.id/7851/2022/03/17/potensi-wakaf-uang-tingkatkan-kesejahteraan-pascapandemi/

Charities Aid Foundation. (2022). World Giving Index 2022: A global view of giving trends. Retrieved from www.cafonline.org to

Kementerian Perencanaan Pembangunan Nasional. (2015). Kebijakan Lahan Pertanian Pangan Berkelanjutan (LP2B) (A. Muharam & D. Maghfirra, Eds.). Jakarta Pusat: Direktorat Pangan dan Pertanian Badan Perencanaan dan Pembangunan Nasional.

Kementerian Pertanian. (2015). Rencana Strategis Kementerian Pertanian Tahun 2015-2019. Jakarta: Kementerian Pertanian Republik Indonesia.

Kementerian Pertanian. (2020). Rencana Strategis Kementerian Pertanian 2020-2024. Jakarta: Kementerian Pertanian Republik Indonesia.

Khan, B. M., Ghafoorzai, A. S., Patel, I., & Shehbaz, M. D. (2021). Waqf based Islamic Fintech Model for Agriculture Sector of Indonesia. International Journal of Business Ethics and Governance, 4(1), 73–85. https://doi.org/10.51325/ijbeg.v4i1.61

Kominfo. (2022). Perkuat Literasi Wakaf secara Berkelanjutan, Pemerintah Libatkan Forum Jurnalis Wakaf Indonesia. Retrieved January 10, 2023, from kominfo.go.id website: https://www.kominfo.go.id/content/detail/44786/perkuat-literasi-wakaf-secara-berkelanjutan-pemerintah-libatkan-forum-jurnalis-wakaf-indonesia/0/berita

Majid, R. (2021). Designing Salam-Muzara'ah Linked Waqf to Financing Agricultural Sector. Journal of Islamic Monetary Economics and Finance, 7(3), 503–526. https://doi.org/https://doi.org/ 10.21098/jimf.v7i3.1309

Majid, R. (2022). Rice land sustainability and agricultural financing through waqf. Review of Islamic Social Finance and Entrepreneurship (RISFE), 1(1), 17–35.

Moh'd, I. S., Omar Mohammed, M., & Saiti, B. (2017). The problems facing agricultural sector in Zanzibar and the prospects of Waqf-Muzar'ah-supply chain model: The case of clove industry. Humanomics, 33(2), 189–210. https://doi.org/10.1108/H-02-2017-0033

Ningrat, G., & Nurzaman, M. S. (2019). Developing Fintech and Islamic Finance Products in Agricultural Value Chain. Journal of Islamic Monetary Economics and Finance, 5(3), 491–516. https://doi.org/10.21098/jimf.v5i3.1077

Obaidullah, M. (2015). Enhancing food security with Islamic microfinance: Insights from some recent experiments. Agricultural Finance Review, 75(2), 142–168. https://doi.org/10.1108/AFR-11-2014-0033

Olaniyi, O. N., Thaker, M. A. B. M. T., Thaker, H. M. T., & Pitchay, A. A. (2014). The Financing Problems Facing the Agricultural Sector in Nigeria and the Prospect of Waqf-Muzara'ah-Supply Chain Model (WMSCM). Global Review of Islamic Economics and Business, 2(1), 1–14.

Ridlwan, A. A. (2016). Implementation Akad Muzara'ah in Islamic Bank: Alternative to Access Capital Agricultural Sector. Iqtishoduna, 7(1), 34–48. Retrieved from http://ejournal.iaisyarifuddin.ac.id/index.php/iqtishoduna/article/view/82/0

Rozalinda. (2015). Manajemen Wakaf Produktif (1st ed.). Jakarta: PT RajaGrafindo Persada.

Shafiai, M. H. M., Moi, M. R., & Ahmad, R. (2015). The Potential of Waqf in Activating Idle Agricultural Land. Jurnal Pengurusan, 44(2015), 141–147. https://doi.org/10.17576/pengurusan-2015-44-13

Shaikh, S. A., Ismail, A. G., & Mohd Shafiai, M. H. (2017). Application of waqf for social and development finance. ISRA International Journal of Islamic Finance, 9(1), 5–14. https://doi.org/10.1108/IJIF-07-2017-002

SIWAK Kemenag. (2022). Dana Tanah Wakaf. Retrieved June 8, 2022, from Kementerian Agama Republik Indonesia website: http://siwak.kemenag.go.id/

Supriatna, A. (2008). Aksesibilitas petani kecil pada sumber kredit pertanian di tingkat desa: Studi kasus petani padi di Nusa Tenggara Barat. Jurnal Sosio Ekonomi Pertanian Dan Agribisnis, VIII(2), 134–139.

Supriatna, A. (2009). Pola pelayanan pembiayaan sistem kredit mikro usaha tani di tingkat pedesaan. Jurnal Litbang Pertanian, 28(10), 111–118.

Twumasi, A. M., Donkoh, S. A., & Ansah, I. G. K. (2020). Farmer innovations in financing smallholder maize production in Northern Ghana. Ag, 80(3), 421–436. https://doi.org/10.1108/AFR-05-2019-0059

Shafiai, M. H. M., Moi, M. R., & Ahmad, R. (2015). The Potential of Waqf in Activating Idle Agricultural Land. *Jurnal Pengurusan*, *44*(2015), 141–147. https://doi.org/10.17576/pengurusan-2015-44-13

Shaikh, S. A., Ismail, A. G., & Mohd Shafiai, M. H. (2017). Application of waqf for social and development finance. *ISRA International Journal of Islamic Finance*, *9*(1), 5– 14. https://doi.org/10.1108/IJIF-07-2017-002

SIWAK Kemenag. (2022). Dana Tanah Wakaf. Retrieved June 8, 2022, from Kementerian Agama Republik Indonesia website: http://siwak.kemenag.go.id/

Supriatna, A. (2008). Aksesibilitas petani kecil pada sumber kredit pertanian di tingkat desa: Studi kasus petani padi di Nusa Tenggara Barat. *Jurnal Sosio Ekonomi Pertanian Dan Agribisnis*, *VIII*(2), 134–139.

Supriatna, A. (2009). Pola pelayanan pembiayaan sistem kredit mikro usaha tani di tingkat pedesaan. *Jurnal Litbang Pertanian*, *28*(10), 111–118.

Twumasi, A. M., Donkoh, S. A., & Ansah, I. G. K. (2020). Farmer innovations in financing smallholder maize production in Northern Ghana. *Ag*, *80*(3), 421–436. https://doi.org/10.1108/AFR-05-2019-0059