



## Does Cash Waqf Linked Sukuk Sustain for State Budget Financing After the Covid-19 Pandemic?

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**Keywords:** *Sovereign Debt, Bond, Sharia Bond, Cash Waqf.* **ABSTRACT**

The COVID-19 outbreak, which began in early 2020, necessitated significant adjustments to the Republic of Indonesia's fiscal policies, particularly in the state budget structure. In response to the economic pressures induced by the pandemic, the government was compelled to finance its budget deficit through debt issuance. Effective and efficient debt management is essential, requiring financing to be secured at minimal cost while maintaining manageable risk levels. One of the financial instruments introduced during this period was the Cash Waqf Linked Sukuk (CWLS), a novel government security launched in 2020. This study employs a descriptive, qualitative approach to evaluate external and internal factors influencing CWLS using a SWOT analysis. The findings suggest that while CWLS presents an opportunity to enhance the government's debt instruments, expanding its implementation remains challenging despite Indonesia's significant cash waqf potential. Key obstacles include limited public understanding of waqf, insufficient competence among nazhirs (waqf managers), and inadequate public communication strategies regarding waqf. These factors constrain the potential of waqf as a viable mechanism for strengthening government financing through debt instruments.

**Kata Kunci:** *utang pemerintah, surat berharga negara, sukuk, wakaf uang.* **ABSTRAK**

Pandemi Covid-19 yang melanda di awal tahun 2020 memaksa pemerintah mengubah strategi pembiayaan APBN. Kebutuhan Pembiayaan APBN yang meningkat membuat pemerintah tidak punya pilihan lain selain memenuhi defisit tersebut melalui utang pemerintah dengan tingkat biaya minimal dan risiko yang terkendali. Salah satu instrumen utang pemerintah yang diterbitkan mulai tahun 2020 adalah Cash Waqf Linked Sukuk.

Penelitian ini dilakukan dengan metode kualitatif deskriptif melalui analisis SWOT. Hasil analisis menunjukkan bahwa kebijakan penerbitan Cash Waqf Linked Sukuk membuka kesempatan bagi pemerintah untuk mengembangkan instrumen pembiayaan ini. Namun, kontribusinya yang masih sangat minim terhadap total pembiayaan Neto menunjukkan bahwa Cash Waqf Linked Sukuk masih cukup sulit untuk dieskalasi meskipun potensi wakaf uang di Indonesia sangat besar. Rendahnya literasi tentang wakaf dan kompetensi nazhir, strategi komunikasi publik yang masih minim mengenai wakaf menyebabkan potensi wakaf tersebut belum optimal sebagai alternatif instrumen pembiayaan.

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## INTRODUCTION

The outbreak of Coronavirus Disease 2019 (COVID-19) in early 2020 significantly impacted Indonesia's fiscal landscape, leading to a sharp increase in state budget financing through debt. To mitigate the spread of COVID-19, the government implemented the Enforcement of Community Activity Restrictions (PPKM), which, while necessary as a public health measure, resulted in severe economic disruptions. One of the most pronounced effects was a decline in state revenue, particularly from taxation, exacerbating fiscal pressures (RI, 2020).

The COVID-19 crisis underscored fundamental vulnerabilities in Indonesia's public finance system. As a developing economy with a fragile fiscal capacity, Indonesia remains highly susceptible to extraordinary economic shocks. The pandemic-induced downturn highlighted the government's limited capacity to raise revenue, necessitating greater reliance on debt financing. Consequently, Indonesia's government debt outstanding surged from IDR 4,786.58 trillion at the end of 2019 to IDR 6,079.17 trillion by the end of 2020. This fiscal deterioration also affected Indonesia's economic classification. In 2019, the World Bank upgraded Indonesia to an upper-middle-income country (Himawan & Pribadi, 2021); however, by 2020, due to the economic downturn, the country was reclassified as a lower-middle-income economy.

The government remains committed to ensuring that debt management adheres to principles of cost efficiency and risk control. However, debt financing carries inherent risks, including exchange rate volatility, interest rate fluctuations, and refinancing challenges. The pandemic necessitated additional government borrowing of IDR 1,039 trillion (RI, 2020), underscoring the critical role of debt as a financing instrument while highlighting the need for innovative financing strategies to mitigate fiscal risks. In response, the government introduced the Cash Waqf-Linked Sukuk (CWLS) in 2020 as part of its financing initiatives. CWLS, a sharia-compliant instrument, was designed to leverage Indonesia's substantial waqf potential to support government funding needs. The combination of budget deficits, fiscal constraints, and the availability of waqf funds provided a conducive environment for CWLS development. However, the limited public awareness and understanding of CWLS posed a significant challenge to its expansion.

Previous studies on Cash Waqf Linked Sukuk (CWLS), such as that conducted by Fauziah et al. (2021), have primarily focused on the instrument's potential social impact. However, these analyses have not adequately addressed the role of CWLS in supporting government debt financing, particularly in the aftermath of the COVID-19 pandemic. The extraordinary fiscal pressures induced by the pandemic compelled the Indonesian government to significantly increase debt-based financing to address the widening state budget deficit. In this context, CWLS presents a unique and underexplored avenue for mobilizing alternative, sharia-compliant financial resources to support national fiscal resilience.

Effective and efficient debt management requires alignment with budgetary objectives while minimizing costs and controlling risks. Despite its introduction, CWLS made a negligible contribution to state financing in 2020. According to Ismal (2022), this CWLS

instrument could become a new Islamic-based fiscal instrument to serve the public and contribute to the country's development. This study seeks to assess the potential role of CWLS in government budgeting and evaluate strategies for optimizing waqf-based financing instruments. Given the enormous waqf potential in Indonesia, a structured approach is required to integrate CWLS into the broader debt management strategy, thereby enhancing its effectiveness as an alternative fiscal tool.

## **LITERATURE REVIEW**

### **Sharia Aspects of Waqf Sukuk**

The legal framework governing waqf in Indonesia is established through Law No. 41 of 2004, which defines waqf as an act of virtue and charitable giving in Islamic law. According to this legislation, waqf refers to the legal act of a waqif (endower) who voluntarily separates and surrenders part of their property for either perpetual or temporary use in the interest of worship and public welfare, in accordance with Sharia principles (RI, 2004).

Etymologically, the term waqf originates from the Arabic word "waqf", which means "to hold," "to stop," "to stay in place," or "to remain standing." In this context, waqf involves the withholding of property from personal ownership and its dedication to charitable purposes. Traditionally, waqf assets have predominantly comprised physical properties such as land and buildings. However, the Qur'an, which serves as the foundation for Sharia law, recognizes waqf as the donation of owned assets, encompassing both tangible and financial assets, including cash waqf (Aziz, 2017).

Waqf is defined as the holding of property—whether permanently or temporarily—such that it is withdrawn from private ownership and exempted from transactions like sale, inheritance, or gifting. Instead, the property is managed to generate sustainable benefits for public or specific welfare purposes, as stipulated by the waqif and within the bounds of Islamic law (Huda, 2015).

Despite the evolving nature of waqf, public perception in Indonesia continues to associate waqf primarily with immovable assets, such as land and buildings (Rusydia & Al Farisi, 2016). In response to this, the Indonesian Ulama Council (MUI) issued a fatwa in 2002 affirming the permissibility (jawaz) of cash waqf, provided that its principal value is preserved in perpetuity. Under this ruling, cash waqf cannot be sold, granted, or inherited, ensuring its sustainability and alignment with Sharia principles (Komisi Fatwa MUI, 2002). Recognizing the potential of waqf as a socio-economic instrument, the Indonesian government established the Indonesian Waqf Board (BWI) in 2007 to oversee and promote waqf development. The establishment of BWI aims to accelerate the empowerment and optimization of waqf assets, facilitating their role in fostering economic and social development in Indonesia (Yasin, 2021).

### **Waqf Scheme**

Globally, waqf practices can be categorized into several schemes, each with distinct mechanisms and applications (Mohsin, 2013):

- a) Waqf Sharing Scheme  
This scheme involves Nazhir (waqf managers) collecting waqf contributions from waqif (donors) and investing them in various financial instruments. The profits from these investments are allocated to welfare-related projects, such as the construction of mosques, schools, and healthcare centers, as well as agricultural development initiatives.
- b) Cash Waqf Scheme  
Similar to the waqf sharing scheme, this model also involves the nazhir collecting and investing waqf funds. However, its primary focus is on financing public welfare programs, such as supporting religious schools and developing community skill enhancement initiatives.
- c) Mandatory Waqf Scheme  
This scheme operates through a compulsory waqf contribution system, where funds are deducted from salaries or levied periodically. Unlike other models, mandatory waqf funds are not invested but are directly allocated to public infrastructure projects, such as roads, hospitals, and other essential facilities.
- d) Corporate Waqf Scheme  
Under this scheme, corporate entities act as waqf donors, contributing to investment pools managed by nazhir. The returns from these investments are channeled into projects aligned with the corporate social responsibility (CSR) objectives of the donating entity.
- e) Special Waqf Scheme  
This model allows waqif to designate their waqf contributions toward specific projects that align with their philanthropic goals. The funds are invested, and the returns are used exclusively for the pre-selected purposes determined by the donor.

### **Sukuk as a Government Source of Financing**

Indonesia's focus on state financial management intensified following the 1998 global financial crisis, which resulted in severe economic instability. A sharp depreciation of the Indonesian rupiah led to an unsustainable foreign debt burden, with the country's debt-to-GDP ratio peaking at 95% in 2000 (Kementerian PPN/Bappenas, 2015). In response, Indonesia undertook comprehensive fiscal reforms, including the introduction of new state finance laws, which laid the foundation for a more structured financial management system.

A pivotal shift in Indonesia's fiscal strategy was the adoption of a budget deficit system, where government expenditures exceed revenue. To bridge the fiscal gap, Indonesia relies on both debt and non-debt financing (DJA, 2014). Non-debt financing sources include the Accumulated Budget Surplus (SAL), principal repayments from subsidiary loans, and privatization of State-Owned Enterprises (BUMN) assets. Debt financing primarily consists of Government Securities (SUN) and Government Islamic Securities (SBSN), commonly known as Sukuk. Both SUN and Sukuk (excluding Project-Based Sukuk) serve as general financing instruments to cover Indonesia's budget deficit. The funds raised through these instruments are deposited into the state treasury, addressing liquidity mismatches in government accounts. However, Sukuk offers greater flexibility as a financing tool, particularly through Project-Based Sukuk (PBS), which directly earmarks funds for

infrastructure development. Sukuk financing has been instrumental in infrastructure expansion, particularly in countries like Malaysia and Saudi Arabia (Malikov, 2017).

Beyond budget financing, the issuance of government securities also serves a broader economic function: developing Indonesia's domestic financial market. Given the vast potential of the domestic Islamic financial market, the Indonesian government has sought to spur financial innovation by expanding its Sukuk offerings, including Retail Sukuk and Cash Waqf-Linked Sukuk (CWLS). Sukuk-waqf represents a financial innovation that integrates Islamic philanthropy with investment-based financing, addressing both economic sustainability and social welfare. This instrument serves as a potential solution to bridge humanitarian funding gaps, support charity-driven initiatives, and promote inclusive economic development (Musari, 2019).

Sukuk-waqf aligns with the principles of sustainable financing, enabling public participation in funding government projects while ensuring long-term fiscal stability (Raghibi & Oubdi, 2018). Moreover, waqf-linked Sukuk offers an alternative financing model that can potentially reduce government reliance on conventional debt instruments and improve debt sustainability (Ambrose et al., 2015). The integration of waqf with Sukuk financing facilitates the provision of essential public services while minimizing government expenditure. By reducing the state budget deficit, this model can ultimately contribute to a decline in government debt burdens over time (Çizakça, 2014).

## **RESEARCH METHOD**

This research employs a descriptive qualitative approach, utilizing literature review and SWOT analysis to examine the policies surrounding the issuance of Cash Waqf-Linked Sukuk (CWLS). There are limited studies on Sharia or Sukuk, specifically on Cash Waqf-Linked Sukuk, and this study aims to enrich the literature on government sharia securities in Indonesia by assessing the implementation of CWLS several years after its issuance. Data and documents were collected from secondary sources, including government reports, financial statements, policy documents, and academic literature. The collected data were then analyzed using both deductive and inductive reasoning, enabling the identification of linkages across data sources and the formulation of relevant conclusions.

To systematically evaluate CWLS policies, a SWOT analysis was conducted using the External Factor Analysis Summary (EFAS) and Internal Factor Analysis Summary (IFAS) methodologies. These tools facilitated the identification, assessment, and quantification of internal and external factors influencing CWLS. The EFAS and IFAS assessments involved:

- a) Identifying internal and external factors relevant to CWLS policy implementation.
- b) Assigning weighted values to each factor based on its significance.
- c) Rating the factors to quantify their impact.
- d) Mapping the results to determine the SWOT quadrant, which provides the best strategic positioning for CWLS policies.

The results of the EFAS and IFAS assessments served as the foundation for strategic policy recommendations to enhance the future development of CWLS.

SWOT analysis is a widely recognized tool for strategic planning in organizational and policy decision-making (Rangkuti, 2006). It enables a comprehensive assessment of both internal and external environments, which is essential for effective policy formulation. The EFAS and IFAS frameworks provide quantitative insights into the strengths, weaknesses, opportunities, and threats of CWLS, enabling policymakers to adopt data-driven strategies.

Based on the EFAS and IFAS evaluations, four possible strategic combinations were considered:

- a) Strength-Opportunity (S-O) Strategy
  - Leverages internal strengths to capitalize on existing opportunities.
  - Suitable for expansionary policies that broaden the scope and scale of CWLS.
- b) Weakness-Opportunity (W-O) Strategy
  - Utilizes external opportunities to address internal weaknesses.
  - Often involves policy innovation and reform to enhance CWLS adoption.
- c) Strength-Threat (S-T) Strategy
  - Uses internal strengths to mitigate external threats.
  - May include differentiation strategies or the development of new financial products.
- d) Weakness-Threat (W-T) Strategy
  - Focuses on minimizing weaknesses and avoiding external threats.
  - May involve consolidation strategies or policy adjustments to ensure long-term sustainability.

Through this structured SWOT-based assessment, the study provides actionable insights into the effectiveness of CWLS policies. It proposes strategies for optimizing waqf-linked Sukuk as a sustainable financing instrument in Indonesia.

## RESULT AND DISCUSSION

Government debt policies are a fundamental component of fiscal management across both developing and developed nations. Countries worldwide—irrespective of their level of economic development—utilize debt as a strategic tool to finance public expenditures and support economic growth. For instance, Indonesia's government debt ratio stood at 39.39% of Gross Domestic Product (GDP) by the end of 2020. In comparison, developed economies such as the United States and Japan have historically maintained debt ratios exceeding 60% of GDP.

Debt financing enables governments to implement fiscal policies aligned with their short-term and medium-term development plans, ensuring that economic growth objectives are met. Ideally, government debt should catalyze economic expansion, fostering infrastructure development, social welfare programs, and public-sector investments. This, in turn, is expected to drive long-term improvements in national prosperity.

However, the effectiveness of government debt policies is contingent on macroeconomic stability and external economic conditions. Domestic economic fluctuations—such as inflation, exchange rate volatility, and interest rate movements—can significantly impact debt sustainability. Furthermore, global economic uncertainties, including financial crises,

trade disruptions, and geopolitical instability, pose additional challenges to the realization of debt-financed growth strategies. Given these complexities, it is crucial to evaluate government debt policies within a comprehensive fiscal framework that balances short-term liquidity management with long-term debt sustainability. This underscores the importance of innovative financing mechanisms, such as Islamic financial instruments like Sukuk, to mitigate risks and enhance fiscal resilience.

### **State Budget Financing Requirements**

The COVID-19 pandemic in early 2020 had a profound impact on global and national economic structures, significantly affecting the Indonesian government's fiscal management. At the onset of 2020, Indonesia's state budget deficit was projected at 307.22 trillion rupiahs, with a deficit-to-GDP ratio of 1.76% (RI, 2019). The initial plan to finance this deficit involved debt financing of 351.85 trillion rupiahs, primarily through the issuance of government securities (Surat Berharga Negara, SBN), including Government Bonds (SUN) and Islamic Bonds (Sukuk), amounting to 389.32 trillion rupiahs (Latifah, 2020). These financial instruments play a pivotal role in financing the state budget deficit, highlighting the government's reliance on capital markets for fiscal sustainability.

The detection of the first COVID-19 case in Indonesia in March 2020 triggered a dramatic economic shift. The implementation of Community Activity Restrictions (PPKM) significantly constrained economic activity and mobility, resulting in negative economic growth in the first half of 2020. Recognizing the fiscal challenges posed by the pandemic, the government swiftly adjusted the 2020 State Budget through Presidential Regulation No. 54 of 2020, later amended by Presidential Regulation No. 72 of 2020. These policy shifts were necessary to accommodate additional pandemic response expenditures while addressing potential threats to national economic stability.

The economic contraction disproportionately affected Micro, Small, and Medium Enterprises (MSMEs), which serve as the backbone of Indonesia's economy. MSMEs contribute approximately 61% of Indonesia's total GDP and employ 97% of the national workforce, making them a critical driver of economic resilience. Moreover, MSMEs account for 60% of total domestic investment, underscoring their integral role in national economic stability. Given their significant contribution, the government prioritized MSME sustainability through various financial incentives and policy interventions.

An important aspect of economic recovery lies in philanthropic financing, particularly through waqf. The relationship between waqf and MSMEs is well established, as waqf-based philanthropic initiatives, managed by waqf institutions (nazhir), have been instrumental in supporting MSME capital requirements (Andrianti, 2017). Properly structured waqf-based financial instruments could provide an alternative funding mechanism, thereby reducing poverty levels and financial exclusion among small businesses (Masyita et al., 2005). The government's fiscal policy response, as reflected in the amendments to the 2020 State Budget, involved substantial adjustments to revenue, expenditure, and budget financing. The increasing financial burden of pandemic-related expenditures widened the state budget deficit, further exacerbated by declining state revenues due to economic stagnation.

Consequently, the reliance on budget financing through government debt became more pronounced, reinforcing the need for innovative financing instruments, such as Cash Waqf Linked Sukuk (CWLS), to diversify funding sources and enhance fiscal resilience.

A comparative analysis of Indonesia's state budget posture before and after these adjustments provides insight into the magnitude of fiscal realignments necessitated by the Covid-19 crisis (see Table 1).

Table 1. Comparison of State Budget Posture Before and After the COVID-19 Pandemic (in trillion rupiah)

Component	Law No. 20/2019	Presidential Regulation No. 72/2020	Budget Realization (LHP BPK)
Revenue	2,233.20	1,699.95	1,647.78
Expenditure	2,540.42	2,739.17	2,595.48
Deficit	(307.22)	(1,039.22)	(947.70)
Deficit to GDP Ratio	1.76	6.34	6.14
Budget Financing	307.22	1,039.22	947.70
Net Financing Securities	389.32	1,173.74	1,177.15

Source: Law 20/19 and Presidential Regulation 72/2020, GFS (LKPP) 2020 (audited).

As illustrated in Table 1, the state budget deficit in 2020 more than tripled compared to previous years. The urgent need to address the COVID-19 pandemic compelled the government to seek financing primarily through debt instruments, particularly government securities, to cover the widening budget shortfall. This fiscal challenge was further exacerbated by a significant decline in revenue targets, driven by the economic slowdown induced by the pandemic.

### SWOT Analysis of CWLS Instrument

SWOT analysis is a method for formulating a strategic plan that an organization/business entity will execute by assessing its internal components. These components include the organization's internal and external components. The government has issued CWLS as a government financing instrument since 2020. The first step in the SWOT analysis is to define the internal and external factors related to the government's issuance of CWLS.

After the internal and external factors are identified, they are quantified using the EFAS and IFAS methods to inform future strategies that the government can set. The EFAS and IFAS methods will serve as the basis for selecting the most likely combination of Strengths, Weaknesses, Opportunities, and Threats to be used as a strategy.

Table 2. Internal and External Factors of CWLS Instrument Issuance Policy

INTERNAL	EXTERNAL
<p><b><u>Strengths:</u></b></p> <ol style="list-style-type: none"> <li>1. Indonesia's reputation in debt management was quite good</li> <li>2. Government debt instruments were safer than other investment instruments</li> <li>3. Government Securities offered higher yields</li> <li>4. Ease of SBN purchasing transactions</li> </ol> <p><b><u>Weaknesses:</u></b></p> <ol style="list-style-type: none"> <li>1. Poor literacy regarding Cash Waqf</li> <li>2. The management of the utilization of CWLS funds has not been integrated</li> <li>3. Poor coordination with service users in the line ministries</li> <li>4. Limited Socialization about CWLS</li> <li>5. CWLS issuance amount or volume was still low</li> </ol>	<p><b><u>Opportunities:</u></b></p> <ol style="list-style-type: none"> <li>1. The number of the Indonesian Muslim population was huge</li> <li>2. Regulatory support regarding Waqf <i>Sukuk</i></li> <li>3. The Islamic financial market still grew</li> <li>4. People's awareness of investing in Sharia increases</li> </ol> <p><b><u>Threads:</u></b></p> <ol style="list-style-type: none"> <li>1. Global economic uncertainty</li> <li>2. Indonesia's status as a <i>middle-income country</i></li> <li>3. The independent <i>Nazhir</i> Foundation managed many <i>Sukuk Waqfs</i></li> <li>4. Lack of <i>Nazhir's</i> competence</li> <li>5. Negative issues about the utilization of waqf</li> </ol>

Source: data processed

The internal and external factors identified by the author that influence the implementation of the CWLS are as follows:

### Internal Factors

From an internal perspective, one of the primary strengths of the CWLS lies in the Indonesian government's strong reputation for sound debt management. Throughout the history of government securities issuance, Indonesia has maintained a consistent record of meeting its debt obligations with no default. This track record contributes to the perception of sovereign debt securities instruments, including *sukuk*, as low-risk investments, particularly appealing to novice investors. Furthermore, the government's commitment to developing the domestic financial market for securities has led to the provision of relatively competitive returns on government securities. The ease of access to investment has also improved significantly through the integration of government securities issuance with electronic banking systems.

Despite these strengths, CWLS also faces notable internal weaknesses. One of the main challenges is the limited financial literacy among potential investors, especially regarding the concept and mechanisms of cash waqf. Many young or new investors tend to assess CWLS primarily based on investment returns, without a clear understanding of its social and religious dimensions. Moreover, the management and dissemination of information on the use of cash waqf remain suboptimal, indicating the need for stronger coordination between the Ministry of Finance and the relevant technical ministries overseeing specific

service sectors. Additionally, the number of CWLS issuances remains relatively limited compared to the total issuance of conventional government securities, which further constrains its reach and impact.

### External Factors

Externally, CWLS benefits from substantial opportunities. Indonesia, as the country with the world's largest Muslim population, has immense potential to mobilize cash waqf. This demographic advantage offers policymakers a unique opportunity to scale CWLS as a viable Islamic financial instrument for public financing. Moreover, the regulatory framework for sukuk issuance is well-established, providing legal certainty and alignment with Sharia principles, thus reducing barriers to implementation. The continued growth of the sharia-compliant financial market in Indonesia, along with increasing investor awareness and preference for faith-based financial products, also enhances the prospects for CWLS expansion.

However, several external challenges persist. The financial market is inherently sensitive to uncertainties, particularly those stemming from global economic conditions and geopolitical instability. As a developing economy, Indonesia remains vulnerable to external shocks that could undermine investor confidence. Another significant concern is the limited capacity and competence of waqf managers (*nazhir*). To foster investor trust in CWLS, the government must ensure the presence of qualified and credible *nazhir*. Negative public perceptions arising from instances of mismanagement of waqf funds can severely hinder the acceptance and growth of this instrument.

The next step was to quantify these internal and external factors using the EFAS and IFAS methods. Each internal and external factor was ranked by importance and assigned a weighted value. After that, each of these factors was assessed for its effects on the policies and assigned a rating value.

In this SWOT analysis, the weighted value and rating value were classified into four scales:

**Table 3.** Weighted Value of EFAS and IFAS

Weighted Value	Level
0.01 – 0.05	Weak
0.06 – 0.10	Moderate
0.11 – 0.15	Strong
$\geq 0.16$	Very Strong

Source: data processed

The rating values for EFAS and IFAS indicate the magnitude of each component's influence. The lower Strengths and Opportunities value indicates little impact on the strategy. In other words, fewer Weaknesses and Threats indicate a significant impact on strategy.

**Table 4.** Rating Value EFAS and IFAS

Rating Value	Strengths/Opportunities	Weaknesses/Threads
1	Having a <b>weak</b> influence on government policies related to debt in the form of CWLS	Having a powerful effect on government policies related to debt in the form of CWLS
2	Having a <b>moderate</b> effect on government policies related to debt in the form of CWLS	Having a substantial effect on government policies related to debt in the form of CWLS
3	Having a substantial effect on government policies related to debt in the form of CWLS	Having a <b>moderate</b> effect on government policies related to debt in the form of CWLS
4	Having a <b>powerful</b> effect on government policies related to debt in the form of CWLS	Having a <b>weak</b> effect on government policies related to debt in the form of CWLS

Source: data processed

After each factor was identified, the weighted and rating values were determined, and the weighted and rating values for each internal and external factor were quantified.

**Table 5.** Quantification of EFAS

Detail	Weight	Rating	Total (W x R)
<b>Opportunities:</b>			<b>1.40</b>
Sharia transaction awareness	0.04	1	0.04
Regulatory support	0.09	2	0.18
Financial market development	0.14	3	0.42
Muslim population	0.19	4	0.76
	<b>0.45</b>		
<b>Threads:</b>			<b>1.16</b>
Economic uncertainty	0.18	1	0.18
Middle-income status	0.09	3	0.27
Many independent Nazhir institutions	0.14	2	0.28
Nazhir's competence is lacking	0.09	3	0.27
The negative issue of the utilization of waqf	0.04	4	0.16
	<b>0.54</b>		
Total External Factors Weight	<b>1.00</b>		

Source: data processed

**Table 6.** Quantification of IFAS

Detail	Weight	Rating	Total (W x R)
<b>Strengths:</b>			<b>1.80</b>
Good debt reputation	0.08	2	0.16
Safe investment instrument	0.16	4	0.64
High yield	0.16	4	0.64
Easy transaction	0.12	3	0.36
	<b>0.52</b>		
<b>Weaknesses:</b>			<b>1.04</b>
Poor understanding of cash waqf	0.16	1	0.16

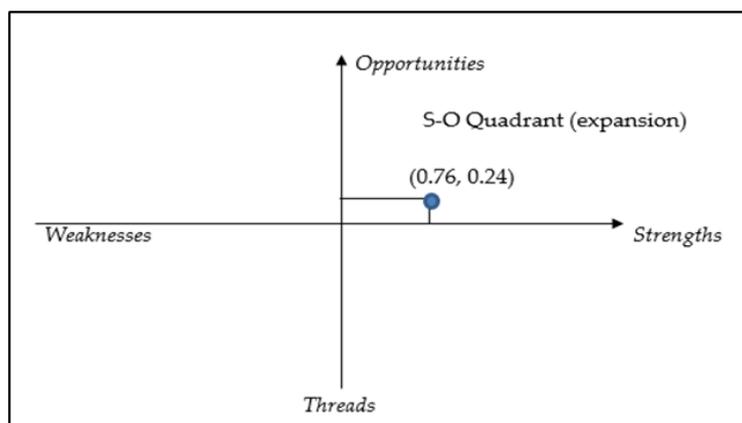
Detail	Weight	Rating	Total (W x R)
Governance has not been integrated yet	0.08	3	0.24
Poor service coordination	0.08	3	0.24
Limited socialization	0.12	2	0.24
Issuance volume was low	0.04	4	0.16
	<b>0.48</b>		
Total Internal Factors Weight	<b>1.00</b>		

Source: data processed

The EFAS value, which contains strengths and opportunities, becomes the Y-axis (Opportunities-Threads), and the IFAS component, which consists of strengths and weaknesses, becomes the X-axis (Strengths-Weaknesses). The total value of EFAS and IFAS is calculated to determine the quadrant location in the SWOT analysis strategy.

$$\begin{aligned}
 \text{EFAS value (Y-Axis)} &= \text{Opportunities} - \text{Threads} \\
 &= 1.40 - 1.16 \\
 &= 0.24
 \end{aligned}$$

$$\begin{aligned}
 \text{IFAS value (X-Axis)} &= \text{Strengths} - \text{Weaknesses} \\
 &= 1.80 - 1.04 \\
 &= 0.76
 \end{aligned}$$



Source: data processed

**Figure 1.** Quadrant Combination of EFAS and IFAS Analysis Results

The SWOT analysis indicates that the CWLS policy is positioned within the Strengths-Opportunities (S-O) quadrant. This strategic positioning suggests that significant opportunities remain for the further development of CWLS. Key strengths, such as the substantial potential of waqf resources and the opportunity to attract investment—particularly from the millennial generation through government Sukuk securities—highlight the favorable internal and external conditions that can be leveraged to enhance the instrument's implementation and impact.

### **Contribution of CWLS for State Budget Financing**

Sukuk waqf, also known as Cash Waqf Linked Sukuk (CWLS), represents a form of cash waqf invested in government securities. This type of Sukuk is issued under a social investment scheme by waqf fund management institutions. The proceeds from the issuance of CWLS are allocated to various social activities, including infrastructure development as a waqf asset. Compared with existing waqf schemes, CWLS modifies several frameworks, including the Sharing Waqf Scheme, the Cash Waqf Scheme, and the Special Waqf Scheme. CWLS employs a cash waqf scheme because the waqf provided by the waqif is in cash. It incorporates a sharing scheme, with the investment's profits used to finance programs or projects directly related to the public interest. Additionally, CWLS adopts a special waqf scheme, allowing the waqif to select beneficiaries who will benefit from the investment outcomes in the CWLS.

A significant portion of the state budget is financed through debt in the form of securities. In 2020, the realization of debt financing inflows from the issuance of net government securities amounted to 1,541.25 trillion rupiahs, a 67 percent increase from 2019. The realization of CWLS issuance in 2020 was 65.76 billion rupiahs of the total issuance of net government securities.

The inaugural CWLS was issued through a private placement under series SW001, with a five-year maturity and non-tradable status in the secondary market. The Indonesian Waqf Board (BWI) allocated a discount from the issuance of SW001 for waqf assets, such as the construction of a retina center and procurement of medical equipment at the Achmad Wardi Hospital in Serang, Banten. Furthermore, the monthly returns from this CWLS investment were used to provide free cataract surgery services to 2,513 underprivileged individuals (both Muslim and non-Muslim), as well as to procure hospital ambulances.

The government also issued retail CWLS at the end of 2020. This retail Sukuk was intended for individual and institutional waqifs using the book-building method and was issued with a two-year maturity. The proceeds from the issuance were directed towards various social programs or activities that provided social and economic benefits to those in need, provided they did not contravene sharia provisions. The Islamic Financial Institution-Recipient of Cash Waqf (LKSPWU), with the approval of BWI as the regulator and supervisor of Nazhir, appointed credible entities to manage the distribution of SWR 001 rewards.

The potential for cash waqf in Indonesia is substantial. According to BWI, the national cash waqf potential could reach 180 trillion rupiahs (Fadhilah, 2018). Furthermore, Indonesia boasts the highest number of waqf nazhir abroad, comprising thousands of individual nazhir and numerous institutional nazhir. As the country with the largest Muslim population, Indonesia also offers significant opportunities for waqf, with open access to revenue streams in sectors such as education, health, and agriculture, as well as the empowerment of small and medium enterprises. However, the remarkable potential of waqf funds remains underutilized. A primary barrier to optimizing waqf is the public's limited understanding of it. Enhanced literacy, particularly concerning cash waqf, could improve the mobilization, management, and utilization of this significant potential.

Consequently, the scope of empowerment could extend beyond a narrow focus on worship to significantly address social issues and poverty. Additionally, enhancing Nazhir's competence is essential to effectively managing waqf funds.

CWLS represents a governmental innovation in budget financing through waqf investments. This cash waqf investment in state Islamic bonds is subsequently channeled through nazhir, who manage waqf funds and activities to finance projects, social activities, and empower the economy. This instrument thus integrates state Islamic bonds and cash waqf as innovative financial products. The vast potential of cash waqf in Indonesia offers the government an opportunity to enhance services and development in access to quality education and health. These public services are primarily intended for the impoverished through programs managed by Nazhir. Consequently, CWLS can facilitate waqf safely and efficiently, support the development of the cash waqf industry, and advance Islamic social investment.

Despite its considerable funding potential, the government faces challenges in establishing Sukuk Waqf as an alternative budget financing mechanism. Utilizing waqf funds for infrastructure development exemplifies this challenge. The government must develop a more transparent budgeting system to manage and leverage the potential of cash waqf, focusing on governance, performance, and the socio-economic impact of cash waqf (Kamaruddin, 2018). For instance, collaboration aimed at utilizing CWLS returns directly, such as through the Project-Based Sukuk (PBS) mechanism, could be beneficial. Additionally, public communication strategies need improvement to prevent misinformation and ensure the public receives relevant, balanced information.

## **CONCLUSION**

A SWOT analysis of the Cash Waqf Linked Sukuk (CWLS) policy, conducted through the External Factor Analysis Summary (EFAS) and Internal Factor Analysis Summary (IFAS) frameworks, reveals that the integration of internal and external factors positions CWLS within the Strengths–Opportunities (S–O) quadrant. Although the coefficient scores for EFAS and IFAS remain relatively moderate, the findings indicate a considerable opportunity for the Indonesian government to further advance the CWLS instrument. This opportunity is anchored in the use of government securities to finance the state budget, which presents favorable internal conditions—specifically, the securities' low investment risk and relatively attractive returns. Nevertheless, CWLS remains exposed to significant external threats, particularly those arising from global economic volatility. Furthermore, individuals can contribute to waqf through various channels, primarily through nazhir—the appointed managers and distributors of waqf funds within the domestic financial system.

In response to the need for more effective waqf mobilization, the Government of Indonesia has implemented several strategic initiatives, most notably the National Movement for Cash Waqf (Gerakan Nasional Wakaf Uang, GNWU), which aims to raise public awareness and participation. Introduced in 2020, CWLS represents an innovative approach to Islamic public finance that aligns religious philanthropy with national development objectives. Despite the instrument's promise—particularly in Indonesia, the world's most populous

Muslim-majority country with a growing Islamic financial sector—its contribution to state budget financing has been limited. During the 2020–2021 fiscal period, CWLS raised only IDR 89.90 billion, accounting for a mere 0.004 percent of the IDR 2,211.67 trillion in net government securities issuance. However, this modest figure should be viewed in light of Indonesia's estimated waqf potential, which is projected to reach up to IDR 180 trillion. This suggests significant untapped capacity for CWLS to foster Islamic financial market development and improve public service delivery through Nazhir-led projects.

While the direct fiscal contribution of CWLS remains minimal, its social impact, particularly in education and healthcare, has been notably more substantial. When strategically allocated, CWLS funds can yield transformative benefits, particularly in addressing social inequalities and promoting community welfare. Realizing this potential, however, necessitates overcoming several structural and perceptual challenges.

A principal constraint is the low level of public literacy regarding cash waqf. Traditionally viewed as a religious obligation rather than an economic instrument, waqf is often not associated with systemic solutions to socio-economic issues. Shifting this perception is essential to mobilizing broader participation. The government should engage with influential civil society organizations—such as Nahdlatul Ulama (NU) and Muhammadiyah—whose extensive grassroots reach can be instrumental in promoting CWLS and enhancing understanding of its socio-economic value. Concurrently, efforts must be directed at improving public communication strategies to ensure transparency and disseminate accurate, balanced information about waqf fund utilization.

Moreover, strengthening Nazhir's institutional capacity is critical to fostering trust among potential waqif (donors). Enhancing Nazhir's competencies in fund management, compliance, and impact reporting will be pivotal in scaling up contributions. Through coordinated efforts across government, civil society, and financial institutions, cash waqf can be repositioned from a traditional philanthropic mechanism to a sophisticated instrument of public finance. In doing so, CWLS has the potential to contribute meaningfully to Indonesia's sustainable development agenda, not only by supplementing the national budget but also by catalyzing social transformation in underserved communities.

Based on the preceding analysis, it is evident that the contribution of Cash Waqf Linked Sukuk (CWLS) as a government financing instrument remains limited, despite its significant potential. This gap raises important questions regarding the long-term sustainability of CWLS as a viable source of public financing, particularly in the post-COVID-19 fiscal landscape. Given the increasingly dynamic development of Indonesia's Islamic financial market, CWLS should ideally play a more substantial role in supporting government funding needs.

This study employs a SWOT analysis framework, which is inherently influenced by the researcher's interpretation and subjectivity. To address these limitations, future research is encouraged to explore the effectiveness and attractiveness of CWLS through empirical methods, particularly by collecting primary data from investors. Such an approach would

provide a more comprehensive and nuanced understanding of investor perceptions and behavior. These insights could offer valuable input for policymakers seeking to optimize CWLS as a sustainable and impactful instrument within Indonesia's broader public financing strategy.

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