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# Islamic Social Finance Innovation: Strategic Integration of Waqf-Linked Sukuk for Sustainable Cooperative Development

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***ABSTRACT***
The study aims to formulate strategies for utilizing waqf linked sukuk in cooperatives to accelerate economic recovery using the Tawhidi String Relation (TSR) approach. Qualitative descriptive approaches are use in this study with Analytical Network Process (ANP) and interview from multi stakeholders in each field, library studies as the data collection techniques. The findings of this research identify various strategies, including strengthening the professionalism of Sharia cooperatives as *Nazhir*; strengthening coordination between regulators; Strengthening education and literacy effectiveness; accommodate the effectiveness of the legislation; and strengthening regulations to support effectiveness. The main strategy in developing effectiveness for strengthening of sharia cooperatives to accelerate economic recovery lies in strengthening the professionalism of sharia cooperatives as *nazhir*, so it must be the main concern for the effectiveness development strategy. This study might only benefit Indonesian policymakers, but it may also benefit other countries which have similar character.



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## 1. INTRODUCTION

The COVID-19 pandemic precipitated a critical fiscal juncture for Indonesia, unveiling structural vulnerabilities inherent in its debt-reliant economic framework as demonstrated in Table 1. Fiscal stabilization efforts enacted through Emergency Law No. 2/2020 resulted in unprecedented budget shortfalls, with the 2020 deficit reaching 6.34% of GDP (IDR 947.7 trillion) - exceeding the statutory 3% constitutional threshold by 111%. Concurrently, public debt obligations escalated exponentially, culminating in IDR 9.5 trillion (USD 636 billion) by 2023, reflecting systemic challenges in fiscal sustainability under exogenous shocks.

Table 1 The Financial Statements of Central Government Fiscal, 2018-2023

| **Year** | **Budget Realization** (Trillion Rupiah) | **Expenditure** (Trillion Rupiah) | **Budget Deficit** (Trillion Rupiah) | **Deficit to GDP (%)** | **Liabilities** (Trillion Rupiah) |
|---|---|---|---|---|---|
| **2018** | 1.943,67 | 2.213,11 | 269,44 | 1,82 | 4.917,47 |
| **2019** | 1.960,63 | 2.309,28 | 348,65 | 2,10 | 5.340,22 |
| **2020** | 1.647,78 | 2.595,48 | 947,7 | **6,34** | **6.625,47** |
| **2021** | 2.011,34 | 2.786,41 | 775,06 | **5,70** | **7.538,32** |
| **2022** | 2.635,84 | 3.096,26 | 460,42 | **4,85** | **8.920,56** |
| **2023** | 3.061,20 | 3.121,22 | 337,29 | 2,84 | **9.536,68** |

Source: Ministry of Finance (2022)

This analysis elucidates what Chapra (2001) conceptualizes as the Islamic Economic Paradox - the fundamental dichotomy between crisis-driven fiscal accommodations *(istihalah)* permitting temporary deficit spending and core Sharia principles prohibiting institutionalized debt dependence *(ribā)* while mandating asset-anchored risk distribution. This doctrinal tension has sparked intense jurisprudential discourse regarding Islamic financial exceptionalism during economic crises. While prominent economists like Kahf (2000) endorse transient fiscal leniency *(darūrah)* during recessions, critics caution against the gradual financialization of Islamic principles through normalized interest-based mechanisms (Maurer, 2005). Indonesia's escalating debt profile (Table 1) epitomizes this unresolved theological-economic conundrum.

The scholarly crux resides in developing financial instruments that simultaneously enable pandemic recovery and maintain conventional policy viability within Sharia economic systems (Indrawati, et al., 2024; Rahman, et al., 2023; Iskandar, et al., 2021). Current research interrogates whether sovereign sukuk and waqf-integrated Islamic bonds present sustainable alternatives to conventional debt-based recovery paradigms.

The notable ascendance of Sovereign Shariah Securities (SBSN) as a crisis response instrument has been marked by substantial 48% annual growth, attaining IDR 76.3 trillion in issuance by October 2024 as illustrated in Chart 1. However, this expansion occurs alongside three persistent structural challenges. First, institutional fragmentation manifests through only 159 of Indonesia's 4,011 Sharia cooperatives (3.96%) fulfilling *nazhir* registration requirements mandated by Government Regulation No. 7/2021 (IWB, 2024), reflecting systemic implementation gaps. Second, a fundamental conceptual dissonance emerges between AAOIFI (2023) commercial asset-backing standards and the traditional social welfare objectives embedded in waqf principles (Yumna et al., 2024), creating philosophical tensions in instrument

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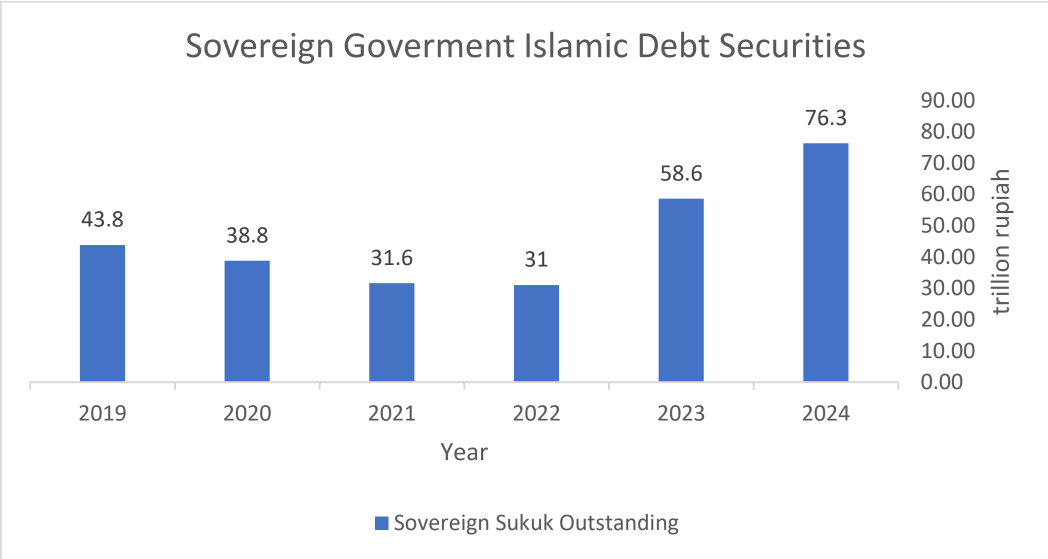
design. Third, operational opacity continues to plague the system, with multiple studies (Nasution et al. (2021); Hafandi & Handayati (2021) documenting persistent transparency deficits in fund deployment mechanisms within waqf-linked sukuk frameworks, undermining stakeholder confidence despite the sector's quantitative growth.

**Chart 1** Outstanding Indonesia Government Islamic Debt Securities, 2019- October 2024




Sources: (DJPPR, 2024) processed

Cash Waqf Linked Sukuk (CWLS) introduces an innovative financial instrument that merges sovereign sukuk structures with waqf principles to fund sustainable development initiatives ((Ismal, 2022). However, persistent governance inefficiencies and transparency gaps, as highlighted by Nasution et al. (2021 and Hafandi & Handayati (2021), underscore the urgency for robust regulatory reforms and targeted public engagement strategies (Aldeen et al., 2022). Furthermore, scholarly discourse on waqf-linked sukuk remains disjointed, necessitating rigorous theoretical exploration and harmonization with international benchmarks. Existing sukuk research predominantly emphasizes financial performance and market scalability (Yusri et al., 2025), while waqf studies often center on its socio-historical significance (Korkut, 2024). This research seeks to address these limitations by synergizing sukuk and waqf frameworks within Sharia cooperatives, thereby amplifying their collective impact on post-crisis economic revitalization.

To achieve a holistic evaluation, the study employs *Al-Maṣlaḥah Al-Mursalah*, an Islamic jurisprudential principle enabling adaptive financial policymaking grounded in societal welfare (Zakiah & Amsari, 2023). This approach aligns with *Maqāṣid al-Syarī'ah*'s objectives: safeguarding faith (*Hifz al-Din*), life (*Ḥifẓ al-Nafs*), intellect (*Ḥifẓ al-'Aql*), lineage (*Ḥifẓ al-Nasl*), and wealth (*Hifz al-Māl*) (Zailani et al., 2022). Through this lens, the analysis assesses sukuk-waqf integration as a catalyst for sustainable economic advancement. Additionally, it identifies pivotal strategies for refining sukuk oversight frameworks, streamlining cash waqf deployment, and advancing inclusive finance via Sharia cooperative networks.

This study advances global Islamic finance discourse by elucidating waqf-linked sukuk's transformative potential in Indonesia's post-crisis socioeconomic rehabilitation. It proposes

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systemic solutions to operational barriers while developing implementation frameworks that harmonize Islamic financial instruments with modern developmental priorities.

Shariah cooperatives have demonstrated their efficacy as catalysts for economic revitalization through inclusive finance models, community-driven empowerment initiatives, risk-mitigation mechanisms, and sustainable development programs (BKF 2022). Their achievements underscore the critical role of ethical, community-based financial ecosystems in fostering equitable recovery and societal cohesion. By integrating sukuk-waqf mechanisms within Shariah cooperatives, this research identifies structural impediments, devises evidence-based interventions, and establishes scalable strategies to amplify their real-sector impact.

Rooted in Islamic jurisprudence, the *Al-Maṣlaḥah Al-Mursalah* principle enables adaptive legal reasoning to address modern socioeconomic challenges through public welfare considerations (Rifai, 2021). Universally recognized by Islamic scholars, this doctrine holds particular relevance in *mu'āmalah* (transactional jurisprudence), where it facilitates alignment with *Maqāṣid al-Syarī'ah*'s quintessential aims: preserving faith (*Hifz al-Din*), life (*Ḥifẓ al-Nafs*), intellect (*Ḥifẓ al-'Aql*), lineage (*Ḥifẓ al-Nasl*), and wealth (*Hifz al-Māl*) (Zailani et al., 2022). Through this lens, the study operationalizes *Al-Maṣlaḥah Al-Mursalah* as a strategic tool to optimize societal welfare while ensuring Shariah compliance in financial innovation.

The development of waqf-linked sukuk emerges as a transformative strategy for economic recovery, anchored in four critical dimensions. Primarily, the integration of Sovereign Shariah Securities (SBSN) with cash waqf establishes a sustainable financing mechanism that mitigates sovereign debt pressures while enhancing fiscal adaptability—a paradigm shift from conventional debt instruments (Mukhlisin & Mustafida, 2019; Arianty et al., 2023). Secondly, the revenue streams generated through these instruments enable targeted funding for high-impact socioeconomic initiatives, directly addressing systemic inequalities and infrastructure deficits (Fauziah et al., 2021; Yumna et al., 2024). Thirdly, such models catalyze grassroots economic empowerment by generating employment, elevating living standards, and fostering localized economic ecosystems (Mubarak et al., 2024; Afrina, 2024). Fourthly, this synergy between waqf and sovereign sukuk exemplifies Islamic finance's adaptive capacities, demonstrating its viability in resolving complex challenges within modern economic frameworks (Afrina, 2024a).

Rooted in classical Islamic jurisprudence, cash waqf—defined by Cizacka as a perpetually endowed charitable fund financed through liquid assets (Ahmad, 2015) —provides a dynamic platform for scalable social finance solutions (Lamido & Haneef, 2021). This conceptual framework traces its legitimacy to Imam al-Zuhri's historical sanctioning of dinar-based waqf for entrepreneurial ventures, wherein profits are redistributed to beneficiaries (*mawqūf 'alayh*). Notably, Indonesia's Islamic scholarly authority, the Indonesian Ulama Council (MUI), institutionalized this practice through its landmark 2002 fatwa on *waqf al-Nuqūd* (cash endowments), thereby codifying its application within the nation's financial architecture. Such doctrinal endorsements underscore cash waqf's dual role as both a faith-driven obligation and a pragmatic instrument for socioeconomic rehabilitation.

Sukuk, formally characterized by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as tradable certificates denoting proportional ownership in tangible assets, usufruct rights, or service entitlements (AAOIFI, 2023), constitute a cornerstone of Islamic finance. In Indonesia, the National Sharia Council (DSN-MUI) operationalizes Sovereign Shariah Securities (SBSN) as government-issued instruments compliant with Sharīʿah

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tenets, emphasizing their role in ethically aligned fiscal governance (DSN-MUI, 2008). Three foundational pillars underpin sukuk structures: first, the strict prohibition of *ribā*-based transactions to ensure equitable wealth distribution, as mandated in QS. Al-Baqarah [2:275]; second, the requirement for asset-backed issuance, wherein underlying assets—such as state-owned properties (BMN)—must possess verifiable economic substance to ensure Sharīʿah congruence (DSN-MUI, 2008); and third, sovereign authority in issuance, wherein the Ministry of Finance or designated government bodies act as issuers, prioritizing communal welfare over profit maximization (DSN-MUI, 2008).

Building upon these principles, Islamic partnership models—*shirkat al-Īmān* (restricted liability partnerships) and *shirkat al-mufāwaḍah* (unlimited liability partnerships)—provide the jurisprudential basis for cooperative frameworks (Hafeez, 2016). Indonesia's regulatory landscape mandates the conversion of conventional cooperatives into Sharia-compliant entities, as stipulated in Government Regulation No. 7/2021 (Articles 13–18), which further requires the explicit inclusion of "Sharia" in institutional nomenclature. Central to this framework is *shirkah-mufāwaḍah*, a cooperative model predicated on equitable capital contributions, collaborative labor inputs, and consensus-based decision-making (Safe'i 2012). These cooperatives institutionalize egalitarian governance structures through proportional risk-sharing, collective accountability, and doctrinal adherence to Islamic ethical norms, thereby operationalizing faith-based socioeconomic solidarity (Sadique 2016).

## 2. METHODS

This study employs a descriptive qualitative approach synergized with the Analytic Network Process (ANP)—a pioneering multi-criteria decision-making (MCDM) framework developed by L. Saaty—to holistically assess and rank pivotal facets of project management. Renowned for its methodological rigor, ANP excels in modeling interdependencies among decision variables, empowering stakeholders to devise solutions that are both contextually adaptive and empirically robust (Taherdoost & Madanchian, 2023). Central to this framework are three foundational principles articulated by Saaty (1999): (1) a network-based architecture that replaces rigid hierarchies with dynamic, bidirectional interactions among intra- and inter-cluster elements; (2) multidimensional interaction mapping, which employs weighted sub-matrices to quantify causal relationships and feedback loops across criteria; and (3) feedback integration mechanisms that embed cyclical dependencies, enabling ANP to surpass conventional tools like AHP and MAUT in addressing the non-linear complexities of real-world decision-making.

By systematically progressing through sequential phases—from problem structuring to sensitivity analysis—the ANP methodology iteratively refines decision priorities while accommodating the fluid dynamics inherent in managerial ecosystems. This methodological approach not only captures the multifaceted interdependencies of project variables but also aligns with contemporary demands for precision in scenarios where static models falter.

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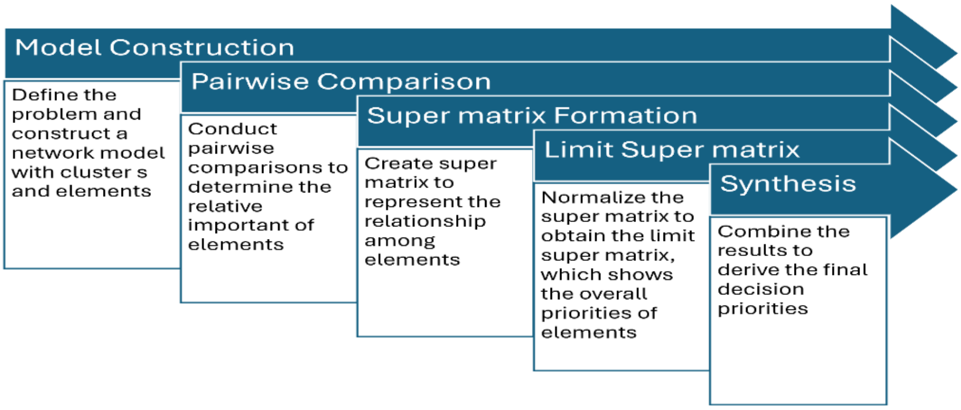
**Figure 1** Steps in ANP




Source: Saaty (1999)

This analytical process systematically addresses decision-making complexities through tripartite phases: problem identification, solution development, and strategic formulation. Applied to waqf-linked sukuk advancement, the Analytic Network Process (ANP) serves as a holistic framework to amplify Sharia cooperatives' efficacy via a threefold approach. First, it diagnoses systemic impediments hindering sukuk-waqf integration within cooperative structures. Second, it engineers targeted interventions to resolve these barriers, emphasizing regulatory adaptability and operational scalability. Third, it devises implementation roadmaps to optimize sukuk-waqf synergies, ensuring alignment with Sharia principles while fostering socioeconomic resilience.

Methodological rigor is ensured through strategic respondent selection, prioritizing stakeholders who fulfill five multifaceted criteria: (1) expertise in sukuk-waqf mechanisms and Islamic financial jurisprudence, (2) practical experience in Sharia-compliant project execution, (3) demographic and professional diversity to capture multidisciplinary insights, (4) recognized authority within their domains, and (5) commitment to engaged, iterative participation. The respondent cohort encompasses regulatory bodies (e.g., Ministry of Finance, Ministry of Cooperatives), cash waqf administrators (*nazhir*), and sectoral leaders, ensuring representativeness across governance tiers. Data collection employs structured, closed-ended questionnaires to quantitatively codify qualitative insights, enabling systematic analysis of stakeholder priorities and institutional pain points.

## 3. RESULTS AND DISCUSSION

As of April 2023, Indonesian Waqf Board (IWB) records reveal a significant institutional footprint of Sharia cooperatives in cash waqf management, with 159 entities formally accredited as *nazhir* (waqf administrators). This figure represents 43% of all registered cash waqf *nazhir* organizations, underscoring their pivotal role in Indonesia's Islamic social finance ecosystem. The IWB classifies these entities into three distinct organizational archetypes: (1) foundations, (2) institutions or associations, and (3) *Baitul Maal Tanwil* (Islamic community-based financial entities). A detailed demographic breakdown of cash waqf *nazhir* across these categories, highlighting proportional representation and operational scope, is graphically represented in Figure below:

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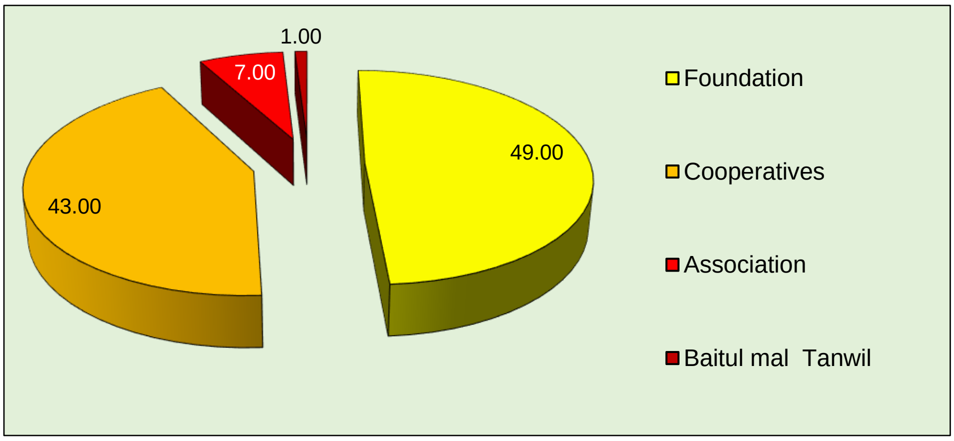
**Figure 2**. Nazir Cash Waqf, April 2023




Source: Badan Wakaf Indonesia, processed

Despite this progress, Sharia cooperatives registered as cash *waqf nazhir* remain proportionally limited, constituting only 3.96% of the total 4,011 Sharia cooperatives nationwide. Article 14(3) of Government Regulation No. 7/2021 authorizes these cooperatives to fulfill social functions through *Baitul Maal*. Furthermore, Sharia cooperatives are inherently intertwined with ZISWAF (*Zakat*, *Infaq*, *Sadaqah*, and *Waqf*) instruments, underscoring their role in faith-based social finance. This disparity suggests that many Sharia cooperatives actively engage in *waqf* collection activities but have not registered formally as cash *waqf nazhir*.

Research on *waqf*-linked sukuk development within Sharia cooperatives serving as cash *waqf nazhir*, analyzed via the Analytic Network Process (ANP) method, offers comprehensive insights into systemic challenges, practical solutions, and strategic priorities. Key findings from the ANP analysis across these thematic clusters are presented below:

### *3.1. Challenges in Enhancing Waqf-Linked Sukuk Effectiveness*

Despite incremental advancements, Sharia cooperatives formally registered as *cash waqf nazhir* (Islamic endowment administrators) remain strikingly underrepresented, comprising a mere 3.96% of Indonesia's 4,011 Sharia cooperatives. This marginal participation persists despite Article 14(3) of Government Regulation No. 7/2021, which explicitly mandates their role in channeling social welfare initiatives through *Baitul Maal* (Islamic community treasuries). The intrinsic alignment of Sharia cooperatives with ZISWAF instruments (*Zakat, Infaq, Sadaqah, and Waqf*) further solidifies their theological and operational centrality in faith-driven financial ecosystems. Such incongruity implies widespread informal engagement in waqf mobilization, with many cooperatives operating as de facto *nazhir* entities without formal accreditation—a gap reflecting regulatory ambiguities or institutional hesitancy.

By applying the Analytic Network Process (ANP) to waqf-linked sukuk development within *nazhir*-affiliated Sharia cooperatives, this research uncovers multilayered systemic barriers, actionable remediation strategies, and policy priorities. The ANP framework, through its capacity to model non-linear interdependencies among governance, socioeconomic, and doctrinal variables, elucidates pathways for harmonizing regulatory frameworks with grassroots implementation realities. The subsequent analysis synthesizes these findings, offering a structured

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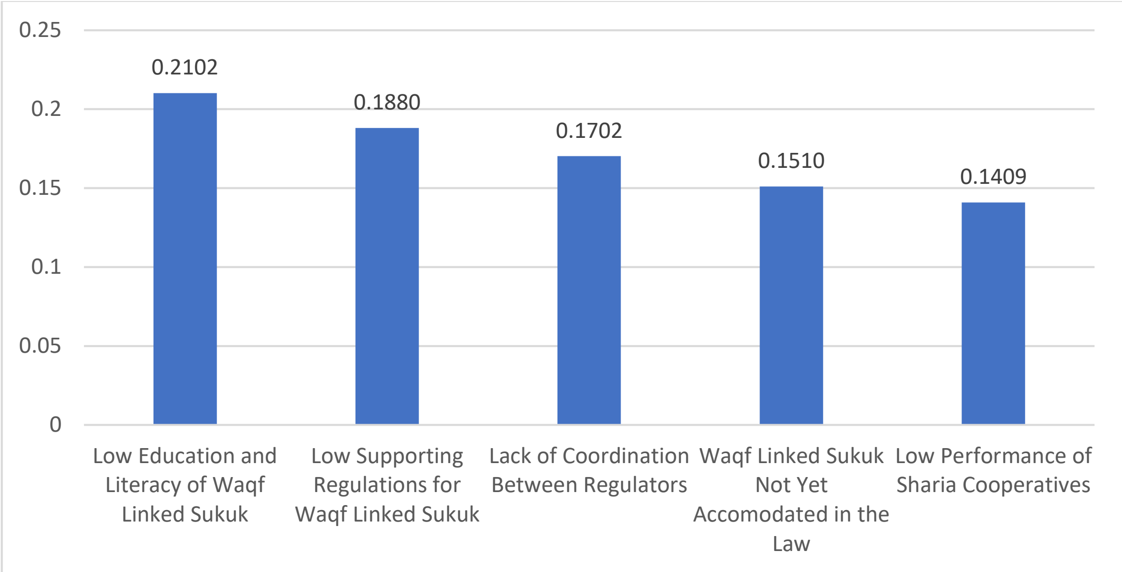
evaluation of strategic imperatives to optimize synergies between Islamic finance mechanisms and cooperative-based socioeconomic empowerment.

**Figure 3**. ANP Results of Problem Clusters




Sources: Data processed

### *3.2. Strategic Solutions for Optimizing Waqf-Linked Socioeconomic Impact*

The Analytic Network Process (ANP) results for the solution cluster identified five key strategies (Figure 4). Among these, *waqf* as a community empowerment instrument (weight: 0.1804) emerged as the primary criterion. Cash *waqf* plays a pivotal role in establishing productive enterprises, which can be optimized to generate socioeconomic value through ventures managed by Sharia cooperative members.

Productive *waqf* accelerates economic recovery by creating employment opportunities, enhancing income streams, and improving community welfare. *Waqf* funds can finance microenterprises and develop critical infrastructure (e.g., schools, hospitals, and community centers). By definition, productive *waqf* refers to assets utilized to generate added value—monetary or non-monetary—with profits allocated to social, educational, healthcare, and humanitarian programs.

The efficacy of *waqf* in boosting economic productivity hinges on institutional governance. Transparent management of *waqf* assets ensures funds are deployed efficiently and aligned with their intended purposes (Nofianti et al., 2024), fostering public trust and encouraging broader community participation.

The performance of *nazhir* (waqf managers) is critical to optimizing *waqf* asset utilization. Structured training and professional development programs for *nazhir* can enhance their technical expertise, enabling more impactful project outcomes and sustainable asset management.

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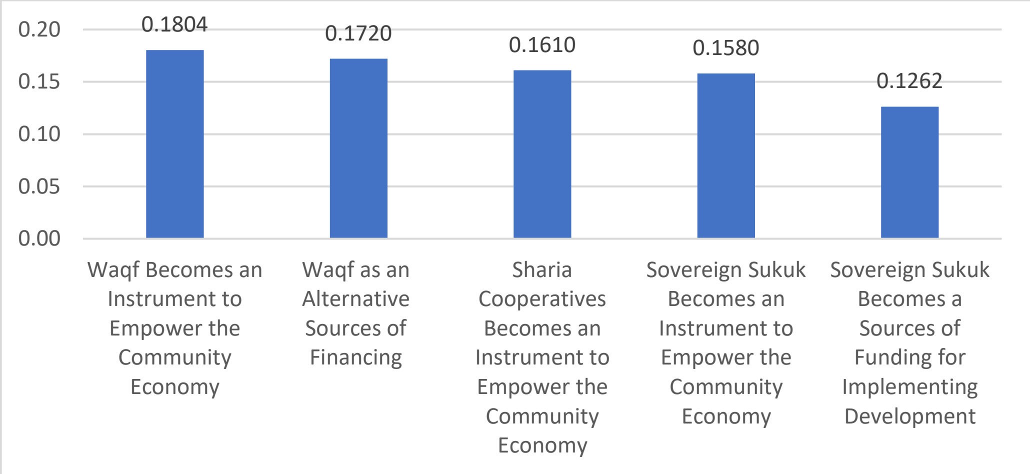
**Figure 4**. ANP Results of Solution Cluster




*Sources:* Data processed

### *3.3. Strategic Priorities for Sharia Cooperative Transformation*

The Analytic Network Process (ANP) analysis of the strategy cluster identified five prioritized criteria, ranked by weight (Figure 5). The foremost criterion is enhancing the professionalism of Sharia cooperatives as *nazhir* (waqf managers). This strategy aligns with competitive advantage theory in Islamic finance, operationalized through two frameworks: (i) social capital theory; and (ii) resource ecosystem optimization theory. Social capital theory emphasizes the importance of the power of partnerships and networks for cooperatives and with cooperative members (Kagan 1989). The network is said to be an alliance, which is a form of agreement between interested parties with the same. This process creates network members to contribute their resources to new things and generate new value (Mura 2012).

The performance of sharia cooperatives must be able to sustain in the long term, characterized by high business competitiveness. Competitiveness reflects that shariah cooperative entities can compete with similar business entities or are able to compete in free market. Indicators included in the sustainability assessment components are: (i) the ability to achieve the sustainability and cooperatives independences; (ii) the ability to achieve the sustainability of the cooperative's role and function creating social impact. The performance of existing Sharia cooperatives still does not meet ideal management standards, so it still needs improvement.

Nazhir plays a crucial role in developing productive waqf and must be competent in managing it professionally. However, many *Nazhir* in sharia Cooperatives lack the necessary skills. Beyond literacy and education, they need to improve their competence in managing waqf funds within the Islamic economic and financial sector. Sharia cooperatives also need to enhance their managerial skills, business management capacity, and ability to build business partnerships. The operational challenges, such as the efficiency of *nazhir* and the integration of technology in waqf management, are crucial aspects that need further exploration. Additionally, the social challenges, including community engagement and trust building, are pivotal for the successful implementation of waqf projects. The low professionalism of *Nazhir* has sparked discussions on the need for management transformation, including significant involvement from the Ministry of Religious Affairs.

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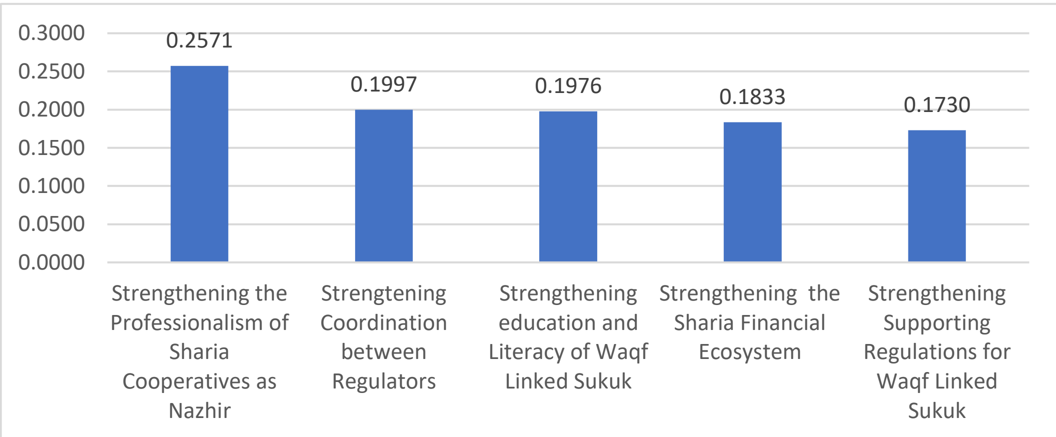
The support from policymakers is crucial to optimize the development of waqf linked sukuk. Policymakers across institutions need to coordinate better. Effective coordination can help streamline processes, ensure regulatory compliance, enhance overall program efficiency, address regulatory challenges, and develop unified policies (Ashfahany & Lestari 2023).

Effective coordination can help streamline processes, ensure compliance with regulations, and enhance the overall efficiency of the program. Key points include: (i) establishing a clear and comprehensive legal framework for developing of waqf linked sukuk involving sharia cooperatives. This includes defining the roles and responsibilities of all stakeholders, setting out the legal requirements for issuing sukuk, and establishing guidelines for the management and distribution of waqf fund (Aufa et al. 2023); (ii) Harmonizing regulations across different jurisdictions can help create a more conductive environment for waqf linked sukuk for shariah cooperatives. This involves aligning national regulations with international standards and best practices in Islamic finance (Musari 2022); (iv) providing training and capacity building programs for regulators and practitioners can help improve their understanding of waqf linked sukuk. This can include workshop, seminars, and certification programs on Islamic finance, sukuk issuance, and waqf management fund (Aufa et al. 2023); (v) encouraging public-private partnership can help leverage the expertise and resources of both sectors. This can involve collaboration between government agencies, financial institutions, and shariah cooperatives to develop and promote waqf linked sukuk (Cahyono and Hidayat 2022). (v) offering incentives and support to shariah cooperatives can encourage the development of waqf linked sukuk. This can include tax incentives, grants, and other forms of financial support to help cover costs of issuing sukuk and managing waqf funds (Yasin 2021); (vi) utilizing technology to streamline regulatory processes can enhance efficiency and transparency. This can include developing online platforms for information sharing, project tracking, and regulatory compliance monitoring (Arianty et al., 2023); (vii) engaging with all relevant stakeholders is crucial for the successful development of waqf linked sukuk. This involves regular consultations with shariah scholars, financial experts, community leaders, and other stakeholders to ensure that regulations are effective and inclusive (Cahyono and Hidayat 2022).

**Figure 5**. ANP Results of the Strategy Cluster
*Source:* Data processed



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## CONCLUSION

The governance of Sharia cooperatives as waqf managers is shaped by a complex interplay of economic, social, regulatory, educational, technological, and institutional dynamics. Addressing these interconnected challenges—particularly systemic gaps in waqf literacy regarding cash endowments, modern instruments like waqf-linked sukuk, and ethical asset stewardship—is critical to maximizing *waqf*'s socioeconomic impact. Low public understanding undermines operational efficacy and erodes trust in cooperatives' capacity to steward these sacred trusts. To bridge this gap, prioritizing educational initiatives to enhance waqf literacy among managers and communities must coincide with adopting digital tools for transparent governance and stakeholder engagement. Simultaneously, institutional reforms are essential to professionalize *nazhir* (managers) through competency training, audited financial reporting, and ESG-aligned governance frameworks. Strategically deploying waqf as alternative financing for microenterprises, infrastructure, and welfare programs could catalyze inclusive growth, provided regulatory harmonization and innovative instruments like waqf-linked sukuk expand financial inclusion while protecting beneficiaries. By synergizing ethical governance, community-driven policies, and fintech solutions, Sharia cooperatives can transcend current limitations, transforming waqf from a underutilized tradition into a dynamic engine for equitable development. Ultimately, the revitalization of this timeless Islamic institution hinges on balancing its spiritual essence with modern managerial rigor to serve as a sustainable bridge between sacred stewardship and contemporary socioeconomic needs.

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