

The Role of Cash Waqf as a Source of Micro Business Financing for Strengthening the Local Economy: A Case Study in Gunung Kawi District, Malang Regency

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ABSTRACT

The impact of the Covid-19 pandemic was felt by all countries in the world, including Indonesia, with a slowdown in economic activity. One of the efforts to stimulate the local economy is community empowerment through cash waqf for financing micro businesses. This study aims to analyze the role of cash waqf in strengthening the local economy through community empowerment. This study used a qualitative method with a case study approach. The object is duck farming and processing business in the community of Gunung Kawi District, Malang Regency. The method used in this research is qualitative based on the Holding Company model. The results of this study indicate that the role and contribution from the community through cash waqf can increase local economic movements according to regional potential. In addition, there is a multiplier effect in strengthening other sectors. The results of this study contribute to the increasing empowerment and strengthening of the local economy that will increase the distribution of cash waqf in Malang Regency and other areas.

Keywords: Cash waqf, strengthening local economy, micro business, empowerment.

1. INTRODUCTION

The impact of the Covid-19 pandemic is felt by all countries in the world, including Indonesia. In the second quarter of 2020, Indonesia's economic growth contracted by 5.32 percent year on year (YoY) in the second quarter of 2020 against the second quarter of 2019 (BPS, 2020). Most of the sectors experienced a decline in growth. The sectors that have been severely affected include business groups related to tourism activities,

such as food and beverage, accommodation, transportation, and warehousing (Ministry of Finance, 2020). The decline in growth in several sectors certainly indicates a decrease in consumption, both at the household level, Non-Profit Institutions Serving Households, and the government.

A decrease in aggregate consumption indicates a decrease in aggregate demand, which will cause a change in equilibrium. Then, the aggregate supply will, of course, respond to these changes, which have implications for a decrease in the number of workers. The number of unemployed people in Indonesia in February 2020 increased by 0.88 percent or 0.06 million people to 6.88 million people (BPS, 2020). Furthermore, the majority of workers in Indonesia, to be precise, as many as 74.04 million people (56.50 percent) in February 2020 worked in informal activities. This condition requires the handling and synergy of government, society, academia, the business world, and the media to revive economic activity.

One of the innovative solutions in strengthening the local economy can be done by increasing the community's role through cash waqf in financing micro-businesses through community empowerment. The waqf instrument is an essential element because there are regions that have succeeded in managing cash waqf to improve the welfare of the community (Seprillina et al., 2019). The same benefits in cash waqf were also conveyed by Ismail (2013), that the potential for cash waqf in financing is not only in the religious sector but also in the financing of various public goods and services, such as education, health, social care, and commercial activities, necessary infrastructure, and providing job opportunity for the society. Mohamad (2014) states that the Waqf Fund Scheme contributes to the economic development of the Muslim community in Penang (Malaysia) by providing financing facilities for the use of waqf assets or through cash assistance distributed to mosque associations or committees. According to Iman (2017), the waqf system is a socio-economic alternative to help poor and underprivileged groups in society, through waqf-based entrepreneurship in improving welfare.

Waqf-based entrepreneurship is the use of waqf potential or assets as a means of supporting and developing business. According to Tohirin (2010), cash waqf is a solution to the Indonesian SMEs' lack of access to formal banking institutions. By utilizing cash waqf financing, SMEs can develop businesses through partnerships with the Cash Waqf Institution (CWI). However, the potential for waqf has not been optimal in its development in quadruple social dimensions, namely (1) funding, (2) human resources, (3) innovation and technology changes, and (4) infrastructure development (Duasa and Thaker, 2016). A lack of accessibility causes this, the role of nazir, which is not yet optimal, and misuse of assets is still a significant problem (Qurrata et al., 2019). Another problem that becomes an obstacle in optimizing cash waqf, according to Nurudden (2010), is the lack of awareness of waqf's importance. Waqf has a role in reducing inequality and improving the quality of life of the poor in Kano, reducing poverty by providing quality education, better health care, and job opportunities. Managing government waqf institutions are an alternative in financing community welfare programs and supporting government policies.

Malang Regency has nearly 450.000 small medium enterprises. It is consisting of many business variations (Republika, 2020). This enormous number represents the great potential in increasing job opportunities. If this potential is added to the role of cash waqf in its development, it will become even stronger. However, according to Siswantoro (2018), Indonesia's cash waqf institutions have unique and different logical characteristics, not unitary or pluralistic. That is different mechanisms for management and distribution. On the other hand, the management of waqf that is less than optimal will

not achieve the expected goals, as Ahmad (2019) stated, where zakat and waqf institutions in Northern Nigeria have not achieved sharia objectives. The cause is low public trust in the institution. Besides, the existence of political intervention in institutional administrators' appointment makes potential donors reluctant to distribute zakat and waqf. Finally, the administrators lack adequate managerial and administrative knowledge of the two institutions. With the findings above, this study aims to analyze the role of cash waqf in strengthening local economic potential, including in Indonesia's distribution mechanism, especially in Gunung Kawi District, Malang Regency, East Java. The role in question is how cash waqf can move and unify the potential and output of SMEs in an area.

2. LITERATURE REVIEW

2.1 The Improvement of Welfare through Cash Waqf

Cash Waqf is an instrument that can improve welfare. Thus, it is shown by Ahmed (2007) that community empowerment through waqf will improve the standard of life through increased income. An increase in individual income, of course, will encourage an increase in consumption as a component of calculating national income. That is, waqf is one of the crucial media in the economic development of a country. It was conveyed by Arief (2014) that by utilizing the potential of waqf, the country's economic development can be maximally achieved, without relying on debt.

2.2 Factors Affecting Cash Waqf

The community has a vital role in increasing welfare through cash waqf. Many factors determine the contribution of individuals to distribute their income in cash waqf. Amin et al. (2014) suggest that consumers' perceptions of ease of use, perceived benefits, religiosity, and perceived information significantly contribute to consumer behavior's disposition to donate. Almost the same as Amin (2014), Mokhtar (2016) also states that religiosity has a significant effect on the intention to cash waqf based on perceptions. The influence of religiosity also underlies other factors such as knowledge of cash waqf, generosity, and recommendations.

Furthermore, Pitchay (2015), based on the Theory of Reasoned Action (TRA), found that the two dimensions of subjective norms and attitudes correlate significantly with perceived intention. Meanwhile, Rizal et al. (2017) show that the perception of Ihsan and the idea of equality have a significant effect on Muslims' religiosity, which encourages the behavior of increasing cash waqf. Furthermore, Abd Jalil (2019) states that information disclosure, which includes necessary information, financial information, non-financial information, future information, and governance information, is a factor that affects waqf commitment through trust.

2.3 Management and Problems in Cash Waqf

Cash Waqf is believed to be one of the solutions to improve community welfare. However, in its management, there are several problems, both internal and external. Internal problems based on priority ranking are:

- a. Lack of waqf management standards,
- b. Lack of the manager's (Nazir) knowledge,
- c. Lack of product exposure,
- d. Lack of IT system,
- e. Lack of financial reporting standards, and
- f. Limited products.

On the other hand, external problems are related to society and government. External problems based on priority ranking are

- a. Lack of exposure to waqf actions,
- b. Lack of public knowledge and understanding,
- c. Unavailability of cash waqf blueprints,
- d. Differences in fiqh schools,
- e. Unavailability of technical regulations, and
- f. Lack of legal protection of assets waqf.

The proposed solutions to overcome these problems can be carried out in the short and long term. According to the rating, the proposed long-term solutions are 1) cash waqf blueprint, 2) more specific arrangements, 3) promoting waqf as one of the national endowments, and 4) synergy with zakat management. The short-term solutions proposed, according to the ranking are:

- a. Manager (Nazir) Standardization
- b. Institutional standardization
- c. Creating more cash waqf funding programs
- d. Massive Public Education on the Waqf Law
- e. Innovating product
- f. Improving the system IT (Khairunnisa, 2014)

Other problems related to the management of waqf were mentioned by several researchers, namely the mobilization and management of productive waqf assets that were not optimal and regulations on waqf were not strong, less skilled nazirs, and less than optimal socialization (Shulthoni, 2018; Huda et.al, 2014; Raimi et.al, 2016). Hassan, Abdul-Rahman, and Yasid's (2018) research explores waqf management practice in Malaysia and proposes a waqf management framework. This study found three important components that are very important for efficient waqf management, namely research management, investment management, and property management. These components' existence will enable the waqf institution to manage waqf effectively so that it will play an effective role for charity in developing Muslims.

2.4 Cash Waqf and Increased Welfare

The importance of waqf in improving welfare has been reviewed in several studies, including Kachkar (2017), which states that the vital role of cash waqf in helping operators run their small businesses is accompanied by the existence of takaful, in the form of recommendations from old members. The function of takaful is to anticipate, compensate for the failure to pay refugees. Furthermore, a study on cash waqf in Somalia

shows that the effective management of cash waqf can improve welfare and reduce Somalia's poverty levels (Saiti et.al, 2019). In line with Saiti et al. (2019), the benefits of waqf in reducing the poverty rate in Iran were also presented by Hosseini et al. (2014), that cash waqf is a new alternative financial instrument.

Apart from Somalia and Iran, the crucial role of waqf can also be seen in Turkey in 1990 (Cizacka in Diniyya, 2019) that poverty decreases by reducing the number of unemployed. Diniyya (2019) also states that solutions to poverty problems can be done either directly (through improving access to education, health, and finance) or indirectly (through policies to increase per capita income). In Malaysia, cash waqf is also an important instrument that plays a role in poverty reduction (Hasan et al., 2018; Atan and Johari, 2017).

3. METHODOLOGY

This study uses a qualitative method with a case study approach. In this approach, researchers understand the problems that have occurred by extracting and gathering information that is then processed to solve the problem (Creswell, 2013). This research was conducted in Gunung Kawi Subdistrict, Malang Regency, with the type of duck farming and processing business, one of the superior products in the region. The data used in this study are primary. Primary data collection is used by in-depth interviews with relevant stakeholders (management agencies, assistants, and business actors). Furthermore, the data were analyzed according to the model of Miles & Huberman (1984), which followed several stages, namely the process of data reduction, data presentation, and verification.

4. RESULT AND DISCUSSION

Several researchers have carried out the distribution model and strategy in developing cash waqf in Indonesia to increase the participation and contribution of cash waqf in economic development. As developed by Rusydiana and Rahayu (2019), the strategy for developing cash waqf in Indonesia uses the following SWOT analysis: (a) transparency and accountability of waqf institutions, (b) improving the quality of cash waqf management, (c) innovative marketing strategies from waqf institutions and (e) support for waqf regulations. The next priority strategies are (d) development of waqf educational institutions and (g) technology and waqf management computerization. Last but not least are (f) Update and validation related to waqf and cash waqf data.

The cash waqf distribution model is also carried out through Islamic microfinance institutions, as cash waqf manager (nazir) can integrate waqf funds as social funds with the function of LKMS as microfinance intermediation institutions (Gustani and Ernawan, 2016). Profits from the distribution of cash waqf funds are shared between the LKMS as the manager and the waqf funds. Another waqf distribution and development model was also conveyed by Allah (2018), with the cooperative-waqf model (CWM) which was implemented in Malaysia. This model carries the concept of a combination of cooperatives and cash waqf to optimize potential waqf assets. The donor is a project member who has the privilege of accessing or utilizing the output produced in the project, for example, in a discount. Thus, the aims to attract donors in the optimization of potential waqf assets.

On the other hand, Mohd (2016) states that cash waqf can be used as a financing source for micro-businesses by involving participatory contracts with non-profit organizations. Of course, this financing model is without collateral, interest rates, and

other strict requirements. Furthermore, Azrai (2018) also states that the Malaysian Waqaf Foundation's cash waqf, in collaboration with an Islamic unit trust firm, is one type of alternative financing in Malaysia. Return on investment from cash waqf can help the Malaysian federal government fund public goods and mixed public goods.

Most of the various waqf schemes are developing the waqf by dividing their profit to other businesses. However, in this study, the waqf model carried out at Gunung Kawi is unique. Due to the waqf management concept, which is expanded the business itself through differentiation and increasing value-added products. The business is projected to develop, and the beneficiaries (*mauquf alaih*) can eventually turn to become donors (*waqif*).

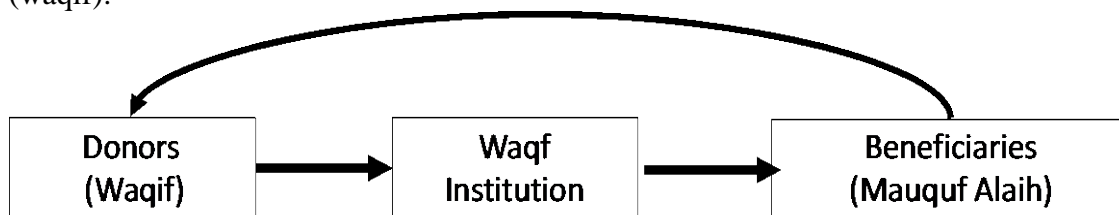


Figure 1. Cash Waqf Scheme in Gunung Kawi District

In terms of distribution, donors (*waqif*) can determine the choice of waqf allocation. The donor (*waqif*) expressed his desire to provide waqf to the waqf institution. Then, the Waqf Institution offers the choice of distribution, according to the budget owned by the donor (*waqif*). Donors (*waqif*) can choose the allocation of their allocation to purchase type A or B and placed in which region. Donors (*waqif*) only deposit cash, then the institution spends the money on goods needed by SMEs and business actors. It means that SMEs' needs do not depend on loans from banks or other financial institutions, but use cash waqf as a source of financing.

As a note, the beneficiaries in this condition are in the underprivileged category and do not have permanent jobs. The donors' kindness can reduce the number of unemployed by empowering local communities. So, this program is expected to increase economic activity gradually. The successful entrepreneur will encourage other businesses to grow in the same sector and different surrounding environment sectors. Thus, there is a continuity and continuity in this program.

In this case, the efforts made by the people of Gunung Kawi are raising ducks. Duck farming is one of the maximum potentials in Gunung Kawi, apart from purple sweet potato, nature tourism, and religious tourism. Initially, the business was carried out by several business actors (breeders), with one assistant. The business breeding process needs people to assist the entrepreneur in running a business, both in management and financial reporting. If the process is going well, the business will significantly develop under the management and maintenance of the entrepreneurs' team and cash waqf management role.

The increase in duck farm business actors indicates a growing business. It means that business actors are beneficiaries (*mauquf alaih*) and beneficiaries (*waqif*). Business assistants also see business developments and assist the reporting process and help develop a duck farming business. In this case, the companion also seeks to increase the value-added ducks by turning it into various kinds of food. The process of increasing value-added is also carried out through empowering the surrounding community, especially women. Thus, it is expected to increase family income and people's purchasing power.

Increasing duck processing in Gunung Kawi, apart from increasing income, on the other hand, also increases the potential types as a superior product and supports the tourism sector. Ducks can be a special dish served for visitors to Gunung Kawi. Then, it can be a new form of souvenirs on Gunung Kawi. Thus, it is expected that this product's consumers are not only in local areas but also outside the city. This condition positively affects not only one sector, but also other sectors, such as transportation. Transportation services are needed, including the courier profession in delivering processed duck. In terms of product packaging, micro-business products in the region are also used, such as baskets and banana leaves. This kind of scheme will further enhance the local economy by integrating the local community's potentials and businesses.

5. CONCLUSION

This study explains the role of cash waqf as alternative financing for micro-businesses in Indonesia, in this case, duck farming in Gunung Kawi District. The cash waqf model in this study helps the community and stimulates beneficiaries to become beneficiaries. Also, business partners are carried out to increase the added value of the product, not only as a dish for the surrounding community but also as a souvenir for tourists and one of the superior products in Gunung Kawi District. Then, the development of this sector will have an impact on other sectors in the surrounding environment.

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