The 5th International Islamic Monetary Economics & Finance Conference

Day 2, 13 November 2019
Embracing Shariah Economics as a new Engine Towards Strong and Sustainable Inclusive Growth
Case Study: Modern Awqaf Instruments
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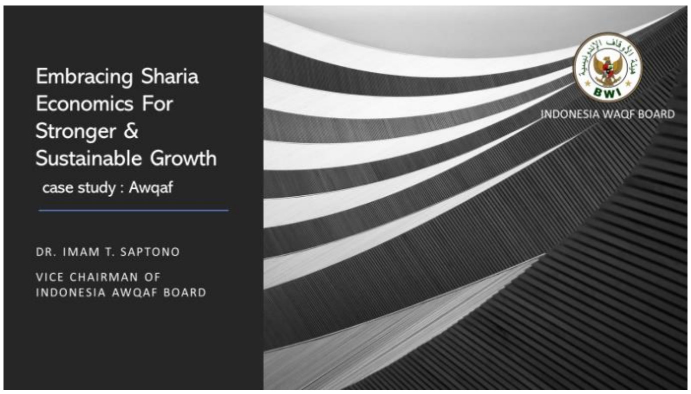
'Audzubillah Minasy syaithanir rajim,

Bismillahi Rahmanir Rahim.



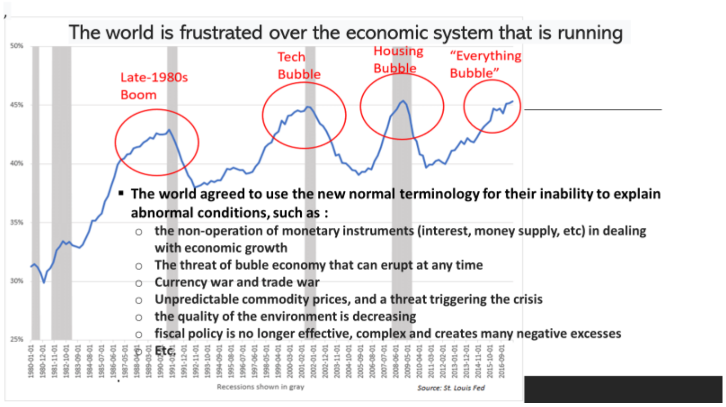
Assalaammu'aikum warahmatullah wabarakatuh.

Distinguished guest, ladies & gentlement

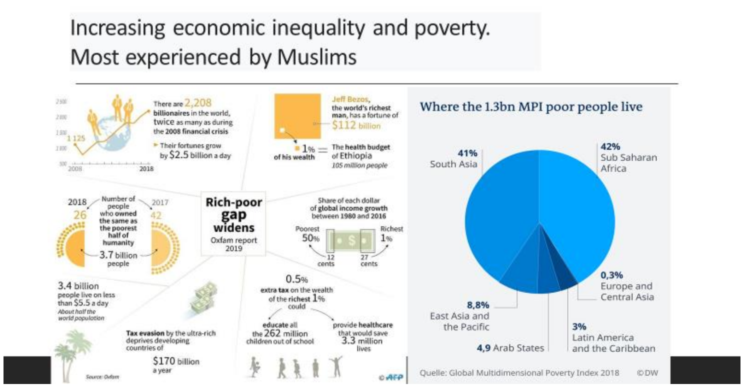
Verily all praises due to Allah Subhana Wa Ta'ala and we seek Allah pleasure to send our sincere blessings & salutation [salaam and shalawat] to Rasulullah Salallahu 'Alayhi Wasallaam

It is an honor for me to be invited as one of the speakers in this very auspicious forum.

Before I begin my talk, please allow me to express my opinion on the topic of our discussion this afternoon, I am inclined to use the word "return" Shariah economics as an economic engine that is in accordance with the nature and safety for all humanity. In line with the concept of Islam as rahmatan lil 'alamin [a mercy to all mankind]. What makes me say "return" is because Shariah economics is not an alternative, rather it is the only solution with which, over the course of history, has proven to be capable in overcoming societal economic problems, which we, unfortunately, ignored or left due to the issue of modernization in order to keep up with and get along with the wave of materialism and capitalism thought that developed at that time up to the present time, which has paved way for neo-liberal concept



Lately, many economists and businesspersons have gotten frustrated over the current economic concept. It has been over a decade, since the outbreak of sub-prime mortgage crisis; a monetary system/mechanism that relies on interest rate and exchange rate instruments that are incapable to tackle global economic downturn. It is even more compounded by the existence of trade and currency wars, launched by economic giants, such as China and the U.S., which at later stage will also spread to other developed countries.



This condition is increasingly slowing down the global economic growth. Developing countries, predominantly inhabited by Muslim populations, suffer the most negative consequences of these wars. Poverty rate is increasing and the problem of economic inequality resulted in a structured, systematic, and massive mode.

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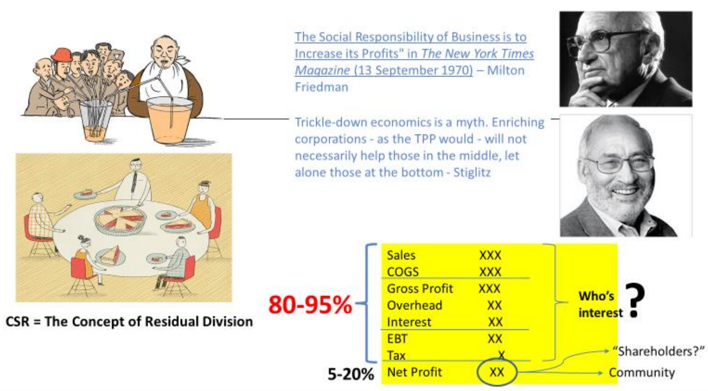
From the micro-economic side, efforts to alleviate poverty and inequality are addressed by the CSR program. However, in reality this program has also been considered to be a failure. In 2006, two professors from Harvard University, Prof. Michael Porter and Prof. Mark Kramer, wrote an article on Corporate Shared Value (CSV) in Harvard Business Review Magazine and detailed this concept again in the same magazine in the January-February 2011 edition. The concept of CSV was born as a form of concern over the failure of the CSR concept that many economists illustrated as the concept of dividing leftovers from dinner, where the party who receives the benefits has absolutely no interest in the company's activities, and vice versa.



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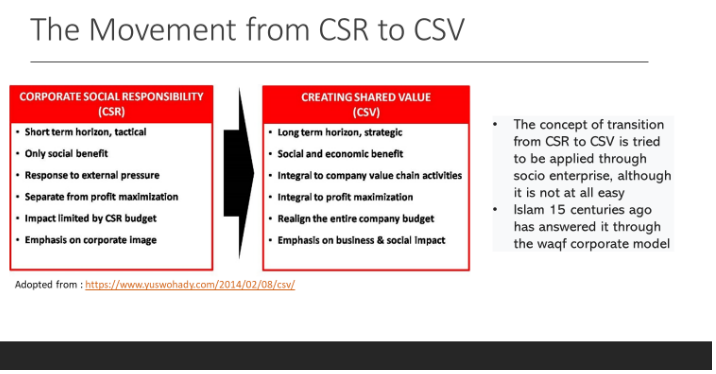
As befits the rest, the beneficiary is only an object that has no choice, both in terms of the amount or type needed. All activities are carried out to protect the interests of the capital owners. On the other hand, the focus in discussions within the CSR framework is more in "dividing the bottom line," for the company's activities which may amount to only 5-20% of the total company revenue, while activities that 80-95% still represent the interest of the capital owner. This phenomenon prompted Milton Friedman, the expert in Economics to comment and publish The Social Responsibility of Business is to Increase its Profits" in *The New York Times Magazine* (13 September 1970).



Within the CSV concept, there are a number of major paradigm shifts that are being offered, including integrating the interests of the company with the interests of beneficiaries, thus each company's activities are not merely oriented towards multiplying the profits, but it would include considering/incorporating social and economic benefits, as well.

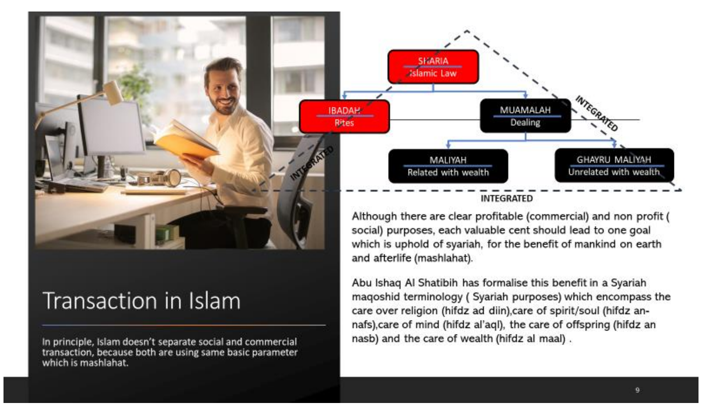
However, in reality, creating an organization that has a "genuine CSV" spirit is not easy, because there will always be a trade-off between profit and social benefits if the business paradigm remains the same. As long as the Key Performance Indicator (KPI) used by the capitalist is still the same, do not expect a different behavioral change.

Islam has introduced the concept of truly CSV since 1.5 centuries ago, which was implemented through the waqf corporation. Yes, waqf corporation, we often hear stories of the generosity of the companions of Rasulullah S.A.W., as narrated in the story of Umar Dates Plantation Co., Ustman bin Affan Water Co., Abdur Rahman bin Ar Ra'uf Trading Enterprise, etc. Yes, that is to say, the waqf gardens of Umar, the Ustmani's Well, the Abdur Rahman bin Auf trade business and many more, there is also a backfill behind which was solely born from a contextual approach, because at the time of the Rasulullah S.A.W. and his Companions, the modern business institutional models, which I illustrated earlier, were unknown. Furthermore, when we refer to surah/chapter Ali Imran, ayah/verse 92, it says, "You have never come to the (perfect) virtue before you give out charity [infaq] some of the best treasure that you love. And whatever you spend, then Allah surely knows."

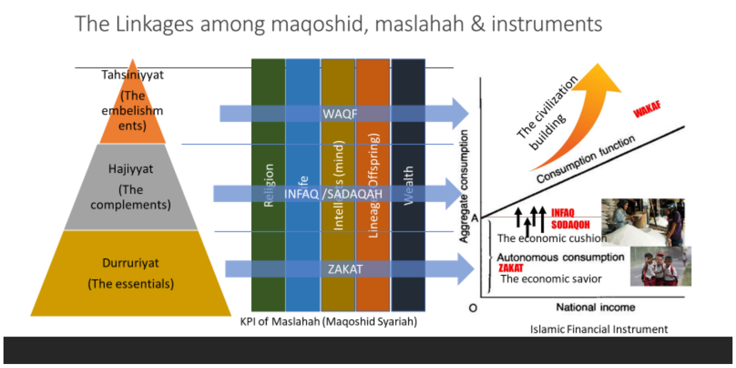
Therefore, try asking company owners, which do they love more: giving up part of the profits (bottom line) or the engine or the corporation? For sure, all of them will say the corporation, and this is the form of waqf itself, namely giving up the engine (productive assets) that is capable of producing or precisely making the company owned as a waqf corporation by surrendering its ownership to Allah

SWT. There, we have answered the riddle about the institutional form that can run the spirit of CSV in a sincere manner, which is nothing but a waqf corporation.

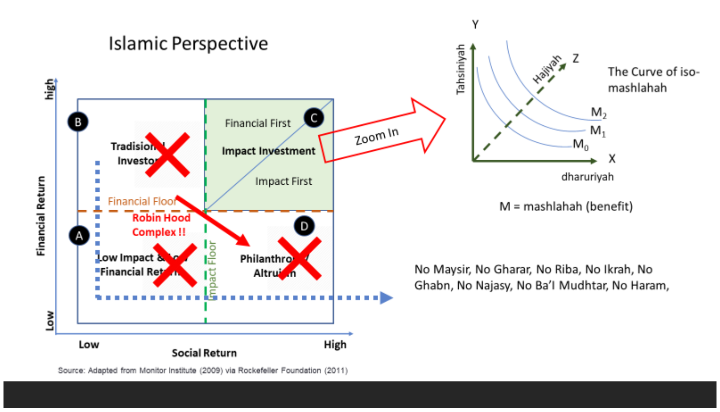
Sometimes we are too pragmatic and naive, have we ever thought why we are busy struggling to eradicate poverty, but do not try to kill the causes of poverty itself, have we ever thought to retire the interest system, stopping the traditional practices of conventional banking which have in fact proven to have caused gaps asset ownership between capital owners and marginal groups is getting bigger, the occurrence of underdeveloped sectors (such as community fishing, agriculture, MSME) is caused by the condition of underinvestment because it is unable to meet the investment criteria set by formal financial sources, especially banks. Learning from the story of the caliph Umar Abdul Azis (in the book Musykilah al-Faqr wa Kaifa 'Alajaha al-Islam by Yusuf Qhardawi) it is mentioned that it is the state that carries out financing to the people through the funds of the Baitul Mal (ZISWAF, kharaj, jizyah), with a customized pattern with the needs and abilities of the target recipient (not with the mechanism of interest). That is, money is allocated not by a mere risk and return mechanism, but rather because of its Islamic maqashid goals, and that is very much in line with the concept of cash waqf. Some libraries even mentioned that money waqf institutions are dwarfed institutions along with the development of modern banking institutions. Whereas it is the source of endowment funds that has the characteristics and ability to answer the goals of maqāṣid (maqāṣid asy-syarīʿah, "sharia intents" or "sharia objectives") because they practically have a very long period and without any cost of funds.



The two examples above, namely the need for the presence of waqf corporations and waqf banks (cash waqf), are a contemporary approach that needs to be revived amidst a very dichotomous mindset over a business practice, the dichotomy is nothing but the separation between commercial and social activities. This condition has been going on for hundreds of years until now we are busy having to revive a new quadrant namely high impact investment (as illustrated in Figure 3). Whereas Islam can distinguish between social and commercial activities, but it never separates between the two because they are all within the framework of worship to Allah SWT. Thus, there can be no worship activities that produce pious people personally without being socially pious, so it is when they do business.



It is a necessity if the objectives and Sharia rules of a business entity are fulfilled, then the transactions carried out by the business must be transactions that have a high impact on the social aspect, because it is impossible to escape from the sharia maqashid namely, safeguarding faith, safeguarding souls, protecting offspring, protecting intellect (intelligence), and safeguarding property. In conclusion, in the concept of sharia there will only be high impact transactions, i.e. transactions that have adequate financial returns on the one hand and on the other hand have high social impacts, as well as the investments it must be impacting the investment activities.



Therefore, in conducting business, a waqf corporation only has a C quadrant. While in the minds of traditional-conventional entrepreneurs they are busy discussing "financial, policy or business instruments" which would be able to meet the quadrant C rules. This is because they are always in the quadrant other than C because of the trap of believing in the paradigm of "trade-off." In essence, in Sharia Transaction, the "trade-off" between financial vs. social return is not known or acknowledge. Overall performance parameters are measured by the benefit index, with the sole purpose of expecting the pleasure of Allah S.W.T.

On the other hand, the concept of waqf corporation is also not entirely the same as Social Preneur. Namely, get as much business as possible (regardless of how to meet the rules of shariah or not) and also give a lot to the social field. This is what I call the "Robin Hood Complex," at least, this can explain why CSR is carried out by many large companies and even multi-national in all sectors can not improve the economic condition of the people, poverty and inequality continue to grow in a structured, systematic and massive way.

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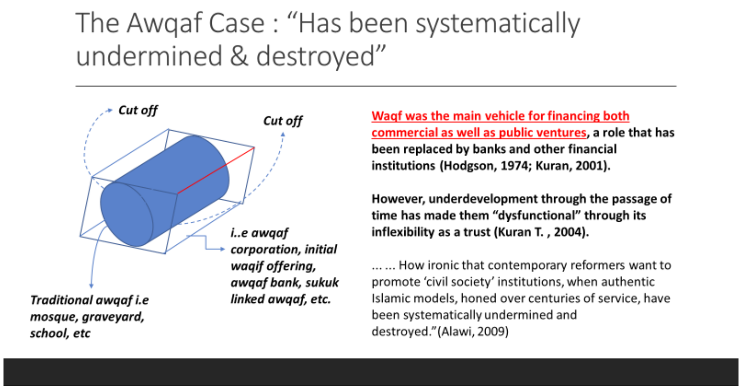
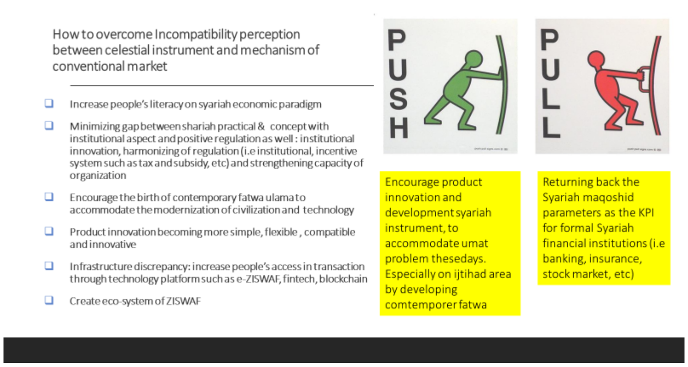
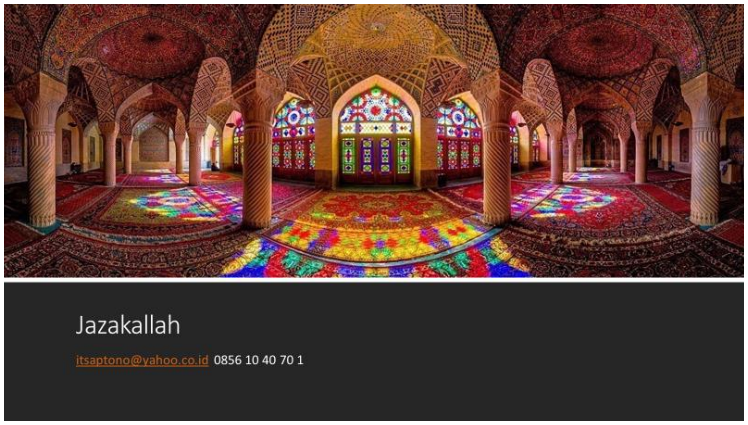
So how can we revitalize endowments? There is no other way but to ground them in everyday economic activity, in the modern context now. It must be recognized that the legal system of companies, banks, capital markets, taxation, and many more, has not been able to accommodate the mechanics of waqf into its mainstream activities. On the other hand, from the understanding of fiqh there is still a narrow and rigid understanding. Some issues such as the process of substitution of waqf assets (istibdal), nadzir transfers, the definition of lost and losses, cause the slow growth of waqf assets and also their utilization. So that many users of waqf assets become very limited and only dwell on social assets (non-commercial) such as tombs, mosques, madrasas so that the trickle-down effect of the resulting economic activity is limited. Over time the economic waqf is getting smaller, cornered, out of the economic mainstream.



The limitations of the propositions related to waqf, both in the Qur'an and the hadiths that cause the practice of waqf to be an area of ijtihad and vary in each school, should not be used as an inhibiting reason, instead the limitations of this argument should be seen as a mercy from Allah SWT and become a force for the implementation of waqf field. That is, endowments should be able to easily accommodate and can be adapted to the state of economic development of the people; ranging from technology, disruptive economy, internet of things, to VUCA. The dynamic economic climate should be a means of proving that waqf can be present as a solution to address the intended challenges, not to make them marginalized. Waqf stakeholders should prioritize the purpose of prosperity and put aside differences between schools of thought (madhab).



To create a sound eco-system for waqf, policymakers must adopt two approaches, namely push strategy and pull strategy. Push strategy, which is as much as possible encourage all stakeholders of waqf (nadzir, Islamic financial institutions, government, Islamic cleric/ulama (DSN)) concerned about the innovation of waqf products in accordance with the development of the Islamic financial industry, such as the launch of Sukuk cash linked waqf, **waqf sukak**, **premiassurance waqf**, **waqf shares**, **waqf banks**, etc. While the 'pulling' strategy is by attracting Islamic financial institutions to care for waqf.



In closing, it must be acknowledged that in the course of the development of Islamic civilization, one of the economic signs of progress of the people is built through the practice of waqf as one of the economic pillars. This is marked by the development of waqf assets especially productive waqf in a significant amount. Drivers and endowments at that time were generally productive assets such as plantations and trading businesses. The people need new thoughts and concepts of waqf to be able to give birth to product innovations that are following the times, but still keep the sharia maqashid. The belief in the greatness of waqf as a great and extraordinary celestial instrument in responding to economic problems, if it has not had a significant impact, rest assured that there are no mistakes for us who have not been able to apply it the right way.