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An Innovative Sukuk-Waqf for Islamic Microfinance Institutions: Integrating Maqasid Al-Shariah, SDGs and Waqf

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Abstract. *The present study aims to introduce a Sukuk-waqf model as a source of funds for the Islamic MFIs through a cash waqf model. In achieving this object,ive, the study adopts a qualitative research approach and proposes a Sukuk-waqf model for the development of Islamic MFIs. The combination of cash Waqf with Sukuk for raising funds for the Islamic MFIs is expected to contribute to the economic sustainability and viability of the institutions. In modelling the Sukuk-waqf model, the study attempts to integrate SDGs, Waqf, and Maqasid al-shariah, which emphasis on the poverty eradication, social justice, and economic welfare through the notion of Hifze deen (preservation of faith), hifze maal (preservation of wealth) and by providing access to the poor for productive resources such as education, training, and credit. The results from this study are expected to provide important inputs for sustainability of Islamic MFIs and assist the MFIs to contribute towards achieving the SDGs and ultimately, the Maqasid al-shariah.*
Keywords: *Sukuk-waqf, Islamic micro-finance institutions (IMFIs), SDGs, Waqf, Maqasid al-shariah.*

Abstrak. *Penelitian ini bertujuan untuk mengenalkan sebuah model sukuk berbasis wakaf sebagai sumber pendanaan bagi Lembaga Keuangan Mikro Syariah (LKMS) melalui model wakaf uang. Oleh karenanya, penelitian ini mengadopsi pendekatan penelitian kualitatif dan mengajukan satu model sukuk wakaf bagi pengembangan LKMS. Kombinasi wakaf uang dan sukuk guna meningkatkan pendanaan bagi LKMS diharapkan dapat berkontribusi pada ekonomi berkelanjutan dan juga kelangsungan hidup LKMS. Dalam pemodelannya, penelitian ini berusaha mengintegrasikan SDGs, wakaf, dan maqasid syariah, dengan penekanan pada pengentasan kemiskinan, keadilan sosial, dan kesejahteraan ekonomi melalui perlindungan terhadap agama, harta, dan juga penyediaan akses bagi warga miskin untuk mendapatkan sumber produktif seperti pendidikan, pelatihan dan juga pembiayaan. Hasil penelitian ini diharapkan dapat memberikan masukan yang penting bagi pengembangan keberlanjutan LKMS dan membantu LKMS dalam berkontribusi kepada pencapain SDGs dan Maqasid syariah pada akhirnya.*
Kata Kunci: *sukuk wakaf, Lembaga Keuangan Mikro Syariah (LKMS), SDGs, Wakaf, Maqasid syariah*

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Introduction

Eradication of poverty, achievement of social justice, and improvement of wellbeing of all members of the society are among the ultimate objectives of Islamic finance. Islamic financial philosophy emphasizes on the concept of adl (justice) and ehsan (fairness) in the financial system, which signifies taking care of the underprivileged segments of society who do not have access to the economic resources or are excluded from the market for financial resources (Khan, 1997). While Maqasid al-Shariah focuses on the poverty eradication through the notion of preservation of life and preservation of deen (faith), recently the United Nations (UN) has also emphasized this issue in their very famous Sustainable Development Goals (SDGs) (Abdullah, 2018). With regards to poverty, SDG#1 - No Poverty, a goal is set to end poverty in all its dimensions by providing the poor access to productive resources such as education, training, and credit (Robert, 2005).

Microfinance institutions have been widely recognized as an important means to tackle poverty and improve the economic socio-economic wellbeing of the poor (Ahmed, 2007). Banerjee & Jackson (2017) stated that many scholars and strategy makers believe that microfinance empowers the deprived sector of the society (especially women), supports entrepreneurial spirit, improves income-generating opportunities for poor, and provides access to educational and health facilities for vulnerable societies. According to Nwigwe, Omonona, & Okoruwa (2012), microfinance has been widely adopted by many countries by including it in their national development agenda due to its impressive role in poverty alleviation, job creation, and economic enhancement. Microfinance also promotes financial inclusion by making financial products and services accessible to the un-bankable sector of society. The greater emphasis has been placed on financial inclusion in the UN's development agenda through the various sustainable development goals, i.e., SDG 1 (no poverty), SDG (zero hunger) 2, SDG 3 (good health and well-being), SDG 5 (gender equality), SDG

8 (decent work and economic growth), SDG 9 (industry, innovation and infrastructure), SDG 10 (reduce inequalities), and SDG 17 (partnerships for the gole) (UN Capital Development Fund, 2020). While it is a relatively a new initiative pursued by the conventional finance through the multi-lateral agency such as the UN, preserving the essence of human being through equality in income distribution as part of the achievement of the Maqasid al-Shariah has been the basic structure shaping Islamic finance right from the start. The Shariah has also focused on financial inclusion through the risk-sharing notion and redistribution instruments (Nawaz, 2018).

Many studies show that microfinance institutions (MFIs) have been very successful in achieving their intended objectives. However, some recent studies show the failure of many MFIs due to several issues. One of them has been the economic viability and operational sustainability of MFIs due to the lack of fund mobilization. Several countries have launched Islamic MFIs by adopting the Islamic modes of financing on the asset side of the conventional MFIs model. However, these MFIs faced the same problems as their conventional counterparts on their liability side, leading to the MFIs not being able to sustain their operations (Ahmed, 2007).

On the backdrop of the issues mentioned above, this study attempts to introduce an innovative Sukuk-waqf model for Islamic MFIs to address the issue of lack of sources of funds especially from Shariah-compliant sources. While previously there have been many attempts by scholars to introduce waqf-based MFIs for the same reason, a novelty aspect of this study is that an innovative Islamic financial instrument is proposed, namely the Sukuk-waqf model that is expected to address the funding side of the Islamic MFIs, which is a highly critical component in ensuring the sustainability of the institutions. The waqf-based Sukuk has the potential to provide a good and sustainable source of funds for Islamic MFIs which can ultimately solve the abovementioned dilemma.

The paper is organized as follows. Section 2 is a literature review. This section explains the integration of waqf, Mqasid Al-Shariah and SDGs and further highlights the definition and role of MFIs in poverty eradication. Together with that, it also describes funding issues in MFIs and Islamic MFIs. It also put a glance at previous studies on Waqf for Islamic Microfinance Institutions. In addition, the chapter also describes Sukuk-waqf Framework, Principles and Requirements. Section three discusses the methodology employed in conducting research. Section four presents' findings and discussions along with the proposed model. Section five concludes the study.

Literature Review

Integration of Waqf, Maqasid Al-Shariah and SDGs

The fundamental objective of Shariah could be summed up as facilitating the comfort and eliminating human suffering. Thus, the inception of Waqf, Sadaqa and Zakat aim to help poor and remove hardships from people and eventually complying with the Maqasid Al-Shariah and SDGs. To this effect, Abdullah (2018) asserts that the global Awqaf (plural of Waqf) should interact and cooperate voluntarily with the SDGs of the United Nations. The international community strives to attain the SDGs in a progressive but consistent manner. The potential contribution of waqf in this quest can be surprisingly important.

In addition, considering the crucial importance of this development mission, different old and new, local, and global Awqaf may embrace these goals and can strive to satisfy the selected social goals at micro and macro levels. He further states that the desired integration and coordination among wqaf-based funding or Maqasid hierarchy can only be accomplished if wqaf revenues are distributed in an appropriate quantity to the prevailing requirements of necessities, desires, and luxuries. In other words, the integrated and holistic approach of Maqasid implies the development of Waqf in the globalised sense in order to address the issue of deprivation vs dignity as one of its preferences (Abdullah, 2018). Kamali (2008) argues that, parallel to the framework of the SDGs, a new framework of the Waqf-based development program can be drawn up among Muslim majority countries in line with the Maqasid al-Shariah approach. According to the Maqasid perspective, the primary goals of all developmental schemes can include assisting the human species to acquire an absolute necessity of life which is required for the dignified existence of everyone.

Besides, the SDGs philosophy and structure are closely aligned with the underpinning paradigm of Maqasid al-Shariah. Confronting the different types of starvation; whether it be nutrition, healthy life, decent education, social position, equality, and opportunity to flourish are some of the common features of SDGs and Maqasid al-Shariah. Similarly, the preservation of sustainability of resources by preservation of marine, ocean, atmosphere, environment, energy and water, along with the promotion of economic growth, industrial revolution, urban protection, and collaboration between all and productive consumption patterns are among the priorities of both Maqasid and SDGs (Al-Ahsan, 2015).

In addition, Khan (2015) implies that the exhaustiveness of the framework of the SDGs provides a shared ground between the SDGs and the Maqasid al-Shariah. Perhaps the integration of the Maqasid approach within the framework of waqf-based development will immediately establish a point of combination between waqf and SDGs. However, it should be ensured that the SDG's framework provides opportunities for the stakeholders of waqf institution to demonstrate the significance of waqf to the global community by conceptualising the nature and approach of waqf in order to satisfy the modern development requirements. This could be accomplished by utilizing a convergent framework of the waqf-based development with the SDGs to the level that the unified Maqasid approach requires it to do so. A convergent route with SDGs can provide a new scenario for Awqaf administration in multiple countries to cooperate with other global institutions working towards similar advancement goals (Abdullah, 2018). Finally, it can be inferred that Awqaf must play a significant role in the global struggle toward absolute poverty. Possibly Awqaf may better persuade the aims of Shariah by integrating the motto of "Poverty Reduction" while also guaranteeing the achievement of the SDGs, particularly in Islamic countries. Ultimately, concentrating on this motto will help the institution to further strengthen its modern relevance.

Definition of Microfinance and Islamic Microfinance

Microfinance is a relatively new concept which evolved in recent years. Asian Development Bank defines microfinance as "...the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises" (Conroy, 2002). Microfinance provides financial support to the poor and to those who do not have access to the banking or other financial institutions' facilities.

Islamic microfinance has been defined as "an investment of capital (in cash or in-kind), based on Islamic modes of finance, to the low-income clients, low-income entrepreneurs in order to help them start or maintain their businesses (Smolo, 2012)." Islamic microfinance is a microfinance innovation that aims to conform to Shariah and Islamic ethical considerations. As Islamic microfinance comes from Islamic finance, its foundation is based on the Quran and Sunnah, thus the prohibitions of interest, speculation, and uncertainty in business transactions are strictly upheld, and the offering of Islamic microfinance products should also promote profit-and loss-sharing-based trade.

Role of MFIs and IMFIs in Poverty Eradication

MFIs have been widely recognized as an important means to tackle poverty and bring prosperity to the poor. According to Obaidullah (2008) microfinance "implies provision of financial services to poor and low-income people whose low economic standing excludes them from formal financial systems. Access to services such as, credit, venture capital, savings, insurance, remittance is provided on a micro-scale enabling participation of those with severely limited financial means". Similarly, prior studies on microfinance reported a positive relationship to poverty alleviation, particularly in the countries where it was applied. This corelation is due to the positive effect that has led in individuals livelihoods, women empowerment and youths, socio-economic enhancement, job creation and increament in people's income and spending levels (Rokhman, 2013; Nazirwan, 2015). However, as stated above, that many scholars and strategy makers believe that microfinance empowers the deprived sector of the society (particularly women), supports entrepreneurial spirit, improves income-generating opportunities for the poor, and provides access to educational and health facilities for vulnerable societies (Banerjee & Jackson, 2017). Professor Mohammad Younus, the founder of Grameen Bank in Bangladesh and the originator of the concept of microfinance, considers that 5% of Grameen Bank's clients come out of poverty each year. According to the report, In the United States, micro-finance created jobs directly and indirectly and 60 percent of borrowers being able to hire others (Mecha, 2017). Yunus and Khandker (2001) found that the welfare of microfinance members increases in terms of net worth and per capita consumption, and its effect on female borrowers are much greater.

On the other hand, Islamic micro finance is founded on the core concepts of Islamic finance that prohibits riba (interest) gharar (excessive risk), maysir (gambling) and illegal and unethical transactions and it emphasises on mutual partnership and profit and loos sharing contracts (Abdul Rahman, 2010). Further, Iyad (2015) cited that, Islamic microfinance have a positive impact on poverty eradication in Bangladesh, especially in rural areas. According to Obaidullah (2008) Islamic microfinance aims to minimise poor people 's reliance on charity by establishing the empowerment programmes needed by the poor and leaving the rewards of charity to the poorest of the poor and impoverished who is unable to participate in income generating programmes. A study in Pakistan observed that Islamic microfinance is playing a very crucial role in improving the factors which directly involves poverty eradication.

Those factors include living standard, educational awareness level, employment level, per capita income, and unequal distribution etc (Aslam, 2014). For these reasons, there has been a great emphasis to alleviate poverty and to bring formerly excluded segments form financial services through Islamic Micro-finance programs worldwide.

Issues in Funding IMFIs

Microfinance has been considered as a popular tool for economic development and financial inclusion worldwide. Many studies show the success of MFIs in achieving their desired objectives. However, some recent studies also show the failure of many MFIs due to several issues. One of them has been the economic viability of MFIs. According to Ahmed (2007), MFIs have been successful in mitigating credit risk through social collateral. However, the economic viability of MFIs is still an area of concern for practitioners and policymakers. The high operating cost and the dearth of fund mobilization place viability of MFIs in a dangerous position. Hashemi (1997) stated that Grameen Bank would have been operating in a loss if it would not be aided by the grants. Similarly, without subsidies, Grameen bank would need to raise its interest rate by further 21% in order to make any profit in 1996. Hulme & Mosley (1996) pointed out that out of 13 MFIs in six nations, 12 have positive Subsidy Dependence Index (SDI) which vary from 32% to 1884%. Several countries have launched Islamic MFIs by adopting the Islamic mode of financing on their asset side. However, they faced the same problems as their conventional counterparts at their liability side. The survey in Bangladesh pointed out the shortage of funds as the main impediment in the growth of Islamic MFIs. On top of that, the survey also showed that Islamic MFIs face some specific problems in obtaining funds from external agencies. For example, the funds available from the government agencies put such terms and conditions on funding which is contrary to Islam. Those conditions restrict Islamic MFIs to utilize those funds to finance their asset side (Ahmed, 2007).

The shortage of funds also leads to other problems in Islamic MFIs. Due to the lack of funds, Islamic MFIs limit themselves in hiring employees which results in fewer field workers. The low number of field workers means less supervision and monitoring which is very important for MFIs' profitability. The lack of funds also leads Islamic MFIs to the hiring low pay workers and low pay workers mean low productive workers. The lower wages also incentivize recruited workers to move to better-paying jobs after getting experience. This increases the chances of default and reduces the expected income to Islamic MFIs (Ahmed, 2007). Therefore, there have been many suggestions from different authors to introduce Waqf-based Islamic MFIs which could solve these problems. However,we intend to propose Sukuk-waqf for funding Islamic MFIs in our study as it has the potential to solve the problems faced by the Islamic MFIs.

Previous Studies on Waqf for Islamic Microfinance

Research related to waqf-based microfinance has been limited. Among the available information, the Global Islamic Finance Report (2016) cites waqf and zakat as a source of funding required for microfinance and further elaborates that microfinance can use zakat and waqf exclusively as a possible source of financing needed to address the requirements of vulnerable people and substantially to eliminate poverty. However, prior to this study most of the waqf-based microfinance researches have discussed the models could be used to help the poor people, for example, Thaker et al. (2016) state that cash waqf can play a critical role in poverty alleviation, which could be funded by MFIs. Further, Duasa and Thaker et al. (2016) show that how cash waqf was utilized in micro-financing in the time of Khalifah Uthman ibn Affan (RH). At the time of Uthman Ibn Affan (RH), Some people have created cash waqf, and they loaned it to no more than 20 separate lenders. The lenders' houses were converted as collateral, and they would pay the waqf 's rent. Once the total amount of debt is repaid, the land will be returned to the lenders. The overall rent that the owners have collected will further split into three portions; Some of the portions of the third part of the benefit are used for administrative purposes, and some for-humanitarian purposes for which waqf has been created and the remaining part was incorporated into the original endowment to shield the actual value from inflation. However, waqf-based microfinance is emerging as a future opportunity in the service of poverty reduction. In this regard, many researchers and scholars have promoted this vision by suggesting a waqf-based microfinance framework (El-Gari, 2004; Kahf, 2004; Ahmed, 2007; Obaidullah, 2008; Hasan, 2010; El-Zoghbi and Tarazi, 2013; Mohammed et al., 2015; Haneef, M.A. et, al., 2015; Thaker et al., 2016; Shaikh et al., 2017).

Likewise, research by Haneef et al. 2015) has suggested incorporating waqf into the microfinance sector as a source of funds that will make it cost-effective for small borrowers in Bangladesh and at the same time alleviate poverty dramatically. Further, Rana et al. (2020) mention that the concept of combining microfinance with waqf is to solve the fund mobilization restrictions. Microfinance may accumulate funds from internal resources, such as deposits and equities. Though it may not be enough, because most of the microfinance customers are vulnerable people. Whereas Islamic microfinance may obtain alternative funding from government agencies, but they enforce several terms and conditions which often contradict the concepts of Islam. Government funds, for example, are commonly provided based on interest charges. Hence, If the source of the funds is not lawful (halal), it will be impossible to implement an Islamic financial scheme. Therefore, it is needed to come up with a compatible and sustainable integrated model that will fit the condition and alleviate the level of poverty considerably. Thus, a proposed waqf-based microfinance model has formulated to full fill the necessity of the poor Muslim borrowers (Figure 1).

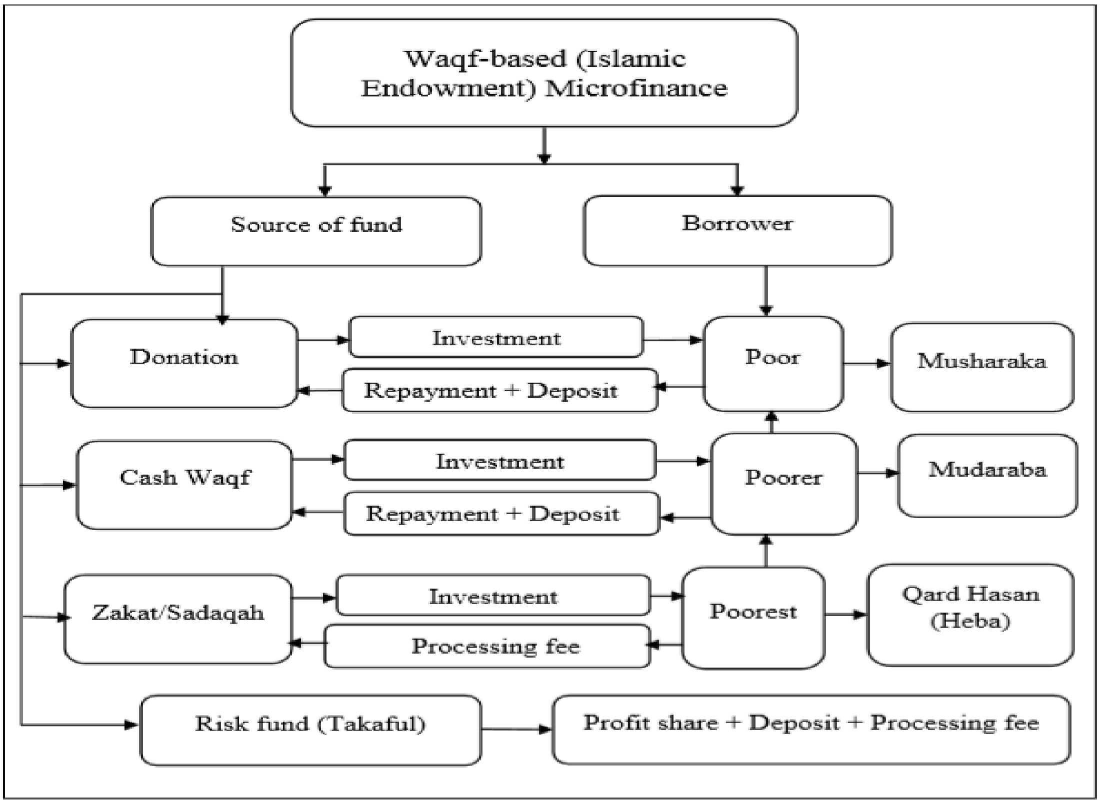

Figure 1. waqf-based (Islamic endowment) microfinance
Source: Rana et al. (2020)

As shown in Figure 1, the source of the fund has been categorized into three sections namely donation, cash waqf, and zakat. Subsequently, the fund would be allocated to impoverished Muslims as an investment. The level of poverty of the Muslims has also been categorized into three parts like poor, poorer, and the poorest. The money raised from the donation will be disbursed to the poor by the Musharakah (sharing/partnership) model of funding. The poor segment would use the invested amount and repay the instalment along with the deposit amount agreed by the lender and borrower. Likewise, cash waqf will be allocated through Mudarabah (trust financing contract) funding system as an investment to the comparatively poorer segment and the borrowers of this credit will pay back the instalment with a specific amount of agreed deposit. Lastly, the Zakat Fund will be entertained by the poorest segment of people through Qard Hasana (interest-free loan) funding methodology. The poorest lies at the hard-core level of poverty. Consequently, if the poorest are unable to repay the loan sum, no fine or penalty will be implemented. In this situation, the borrower would only be required to pay the processing expenses to process the amount of the loan. The whole fund will be secured by a risk fund or through the implementation of takaful (mutual guarantee/cooperation) or some internal risk control arrangement. A portion of the deposit and transaction fees paid by the borrowers will set up the risk fund.

Critical Review of Sukuk-waqf Framework, Principles and Requirements

Sukuk-waqf comprises two Islamic financial instruments: sukuk and waqf (Dali, Zakaria, Salleh, Zainuddin, & Jalil, 2017). Sukuk waqf is described by Oubdi & Raghibi (2018) as an exchangeable certificate of equivalent monetary worth that reflects a fixed quantity of money (Al-mal al-mawquf). The structure of a sukuk waqf is identical to that of an ordinary sukuk. On the other hand, the shareholder in a sukuk waqf is not driven by any profits or returns (Oubdi & Raghibi, 2018). However, Musari (2019) differentiates amongst two forms of sukuk-waqf, i.e. waqf linked sukuk and sukuk linked waqf. The majority of sukuk linked waqfs are utilized to fund the expansion of the waqf assets. The money generated by the sukuk is utilized for development purposes. The underpinning for this sukuk generally comprises waqf assets. Waqf linked sukuk is a type of temporary waqf. It is a cash waqf invested in sukuk . The income from the investment is used to maintain and improve societal activities in the community, including academic and medical services. Musari (2019) emphasized that Kasri & Saeran (2016) in their study highlighted numerous researches proving the sukuk-waqf as an ideal solution for the charitable funding gap. Shukri, Zamri, Muneeza, and Ghulam (2019) suggested sukuk-waqf for the redevelopment of waqf assets and for the rehabilitation of Marawi city, which was devastated due to the endless battles amongst ISIS (Islamic State of Iraq and al-Sham) and political figures. Sukuk al-musharakah in Singapore and Sukuk al-intifa in holy Makkah are two examples of successful initiatives to renovate waqf assets using the sukuk waqf. According to Musari (2016), Sukuk-Waqf is an efficient tool for the sustainable financing of higher educational institutions. As per Reuters (2018), the Indonesian government has raised $1.64 million thru Sukuk-waqf to develop public infrastructure and disaster-affected regions. Oubdi and Raghibi (2018) consider Sukuk-waqf a solution to public finance deficits and suggest it for the advancement of public infrastructure in Muslim nations. Dali et al., (2017) cited that as per Rifki Ismail (assistant director of Shariah Finance and Economic Department at Bank Indonesia), customarily waqf has been utilized for societal considerations. However, the sukuk-waqf is founded on commercial observations. However, the merger of sukuk and waqf has been valued by several authors.

On the contrary, Cizaka (2016) considers it challenging as it forms numerous issues related to shari'ah and finance, i.e. temporality of the waqf, reimbursement of sukuk proceeds and the usage of waqf corpus as collateral etc. Further, he views that the model comprises gharar and tries to distort the waqf institutions that have assisted the ummah throughout history. He urges Ehsam as a viable tool to combine with the waqf.

Research Framework

A research framework is a concept that demonstrates what the researcher wants to discover in his / her research (Swaen 2015). It describes the relation of cause and effect between the variables analysed in the study. This provides a visual description of how ideas connect in research. It is the most straightforward means by which a researcher presents his / her answers to the problem he/she has established (Adom, Hussein and Agyem 2018).

The section discusses the research framework of the study. In comparison, a content analysis of literature on Waqf, Maqasid Al-shariah, SDGS, MFIs, Sukuk and IMFIs will lead to introduction of Sukuk-waqf that will full fill the funding requirements of Islamic MFIs and provide investment opportunities to the deprived segment of the society and encourage them to participate in investment activities which will accelerate the economic growth and contribute to poverty eradication. Moreover, it will enhance the economic viability of Islamic MFIs by providing a good source of funds which is a serious challenge for all Islamic MFIs. The research framework of study is shown in the following figure 2:

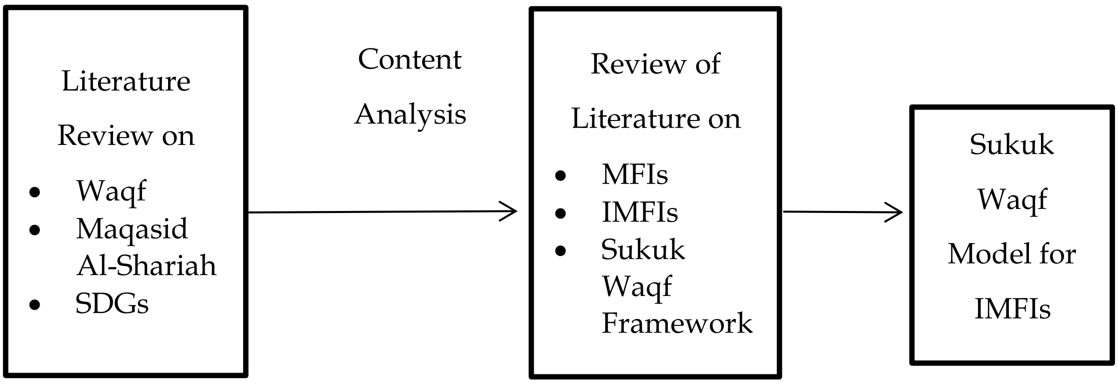

Figure 2. Research Framework of the study

Method

To provide a historical overview of the topic, the study has adopted a semi-systematic review approach as the research paper has discussed the past studies on Waqf for IMFIs, historical evaluation of MFIs and challenges in funding Islamic and conventional microfinance institutions. Besides, this research paper has employed the content analysis and proposes the use of Sukuk-waqf for the development of Islamic MFIs. In collecting the data, these secondary resources were used, i.e., journal articles, published reports, research papers, etc. These resources were also employed in literature review to define and explain the integration of Maqasid Al-Shariah, waqf and SDGs with a brief overview of Microfinance and Islamic Microfinance. Overall, the study provides comprehensive and coherent material on the topic which will serve as a guiding note for administrators of Islamic MFIs, and policymakers to enhance the economic sustainability and viability of Islamic MFIs through cash waqf.

Results and Discussions

The study suggests Sukuk-waqf model for Islamic MFIs to raise funds in order to finance microfinance activities. We propose a cash waqf mechanism to be combined with Sukuk for raising funds as it is the easiest and the most commonly used mode of Islamic endowment in the 21st century. The merger of Sukuk and waqf in a single structure has been considered worth pursuing by different scholars. It has been displayed as a perfect solution for the philanthropic financing gap by several researchs. The model will provide a good source of funding needed for the viability of Islamic MFIs.

The structuring of Sukuk-waqf is similar to the structuring of general Sukuk. However, the investor in Sukuk-waqf is not motivated by any profitable returns. The cash waqf raised through the Sukuk will be invested and the return will be used to finance microfinance activities. The figure below illustrates the flow of the model as shown in Figure 3:

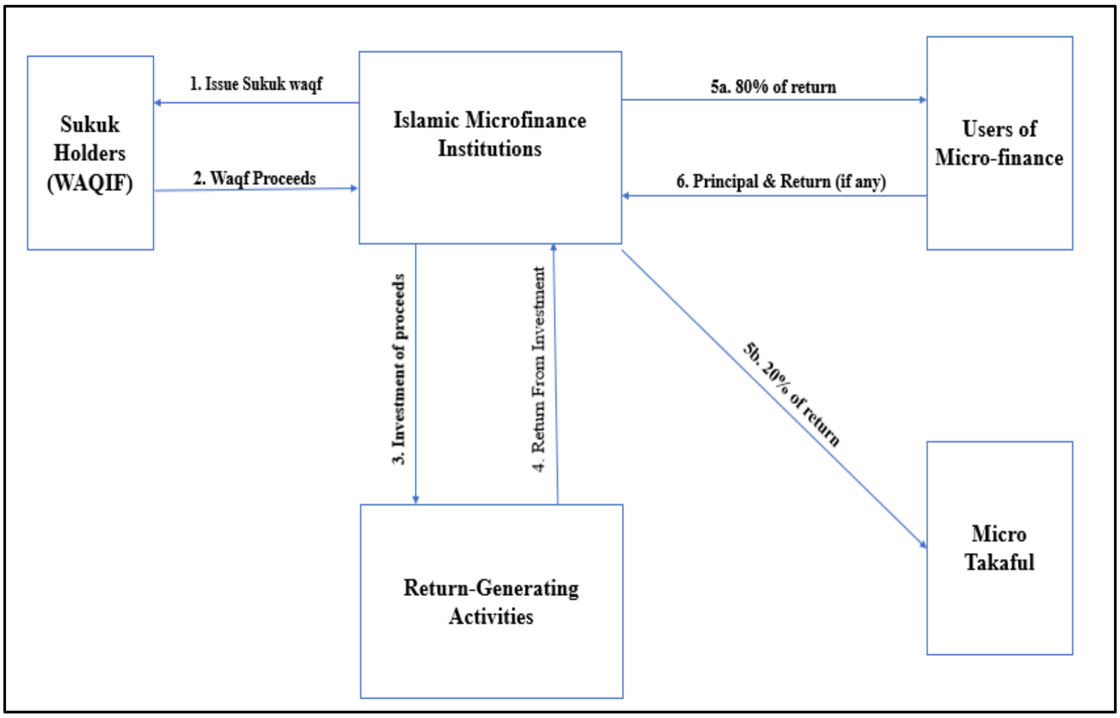

Figure 3. Proposed Sukuk-waqf Model for Islamic MFIs

The modus operandi of the proposed Sukuk-waqf model are as follows:

- Islamic Microfinance Institution as an issuer will issue the Sukuk-waqf.
- Sukuk holders as a waqif will donate the cash-waqf in exchange for the Sukuk certificates. Islamic MFIs will act as a trustee of the waqf fund after receiving it.
- Islamic MFIs will then invest cash waqf in secured low-risk return-generating investment activities. This will lead to the sustainability of the cash-*waqf* fund.

- The return from the investment will be divided into two portions. 80% of the return will be used for micro-financing activities while 20% of return will be used for the micro-takaful purpose. It will further mitigate the risk of microfinance institutions.
- Islamic MFIs can use different Shariah contracts on their asset side. The Murabahah or Ijarah contracts can be used if the client needs a real commodity or asset. The real assets will be exchanged based on the previously referred contracts. It will reduce the risk of diverting funds for non-productive activities by the clients which eventually result in default. Islamic MFIs can also use Musharakah and Mudhrabah contracts to finance trading activities. This will absorb the burden of losses from the clients. Islamic MFIs can also use Qard al Hasan for financing a very poor segment of the society. In this scenario, Islamic MFIs will only charge operational costs from them.
- The client will pay the periodic return to the Islamic MFIs (if any) based on the contract. The losses also will be borne by the relevant parties based on the contract. For example, in the Ijarah contract, the client will pay the rental. In Musharakah, the profit will be distributed according to the agreed ratio and the loss will be borne as per the capital contribution. In the Mudharabah contract, the profit will be divided based on the agreed ratio while the loss will be borne merely by Islamic MFIs.
- At the maturity, the contract between client and Islamic MFIs will be terminated as per the need of the contract. The client will return the capital amount to the Islamic MFIs. In the event of Qard al Hasan, the client will only return the capital and pay the operational cost. The Islamic MFIs will use the same money for subsequent financing.

Conclusion

Several studies has displayed Sukuk waqf as a perfect solution for the philanthropic financing gap (Musari, 2019; Kasri & Saeran, 2016). According to the Reuters (2018) the Indonesian government has raised $1.64 million through Sukuk waqf especially for the development of public infrastructure and disaster-hit areas. Therefore, the present study tends to introduce a Sukuk waqf model to faclitate the development of public infrastructure in Muslim countries and to remedy the public finance deficit. However, the proposed model of Sukuk waqf is grounded on the social considerations and commercial observations.

Thus, the merger of Sukuk and waqf in a single structure to full fill the funding requirements of Islamic MFIs will provide investment opportunities to the deprived segment of the society and encourage them to participate in investment activities which will accelerate the economic growth and contribute to poverty eradication. On the other hand, in the proposed model of Sukuk waqf governments, NGOs, rich Muslims and people who are highly motivated to participate in philanthropic and voluntarily causes will provid funding to Islamic MFIs through Sukuk waqf. Whereas Islamic MFIs will invest the fund in secured portfolios and the return from the investment will be utilised to provide financing to the un-bankable segment of the society through applicable Shariah contracts and concepts.

Hence, the proposed model has potential to solve the problem faced by the Islamic MFIs on their liability side. As it will enhance the economic viability of Islamic MFIs by providing a good source of funds which is a serious challenge for all Islamic MFIs. MFIs have been proven to be the good performer in poverty reduction which is one of the most important objectives of Shariah as well as SDGs. However, due to the funding issues, several Islamic MFIs have faced serious threat which hindered their operation. Therefore, the research has proposed a cash waqf model to full fill the funding requirement of Islamic MFIs. Nonetheless, zakat and sadaqah can also be used for this purpose. The study is an attempt to introduce the traditional concept of waqf in its new method to fulfil the objective of Shariah. There is a dire need for such studies that could bridge the gap between the theory and practice of Islamic finance.

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