International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS)

International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS Journal) | ISSN (e): 2808-4713
Volumes 5 No. 2 (2025)

INNOVATIVE *WAQF* MODELS FOR SUSTAINABLE ECONOMIC DEVELOPMENT: ASSESSING LEGAL FRAMEWORKS AND PRACTICES IN INDONESIA CONTEXT

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Received	: 20 January 2025	Published	: 30 April 2025
Revised	: 31 January 2025	DOI	: https://doi.org/10.54443/ijebas.v5i2.2981
Accepted	: 20 February 2025	Publish Link	: https://radjapublika.com/index.php/IJEBAS

Abstract

This study addresses the significant potential of waqf assets in Indonesia, which are currently underutilized due to a primary focus on charitable and religious purposes, thereby limiting their contribution to sustainable economic development. The aim of the study is to explore how waqf can contribute to economic growth, identify new models for using waqf, and suggest ways to overcome the challenges in waqf development. Using a legal research approach, the study analyzes legal frameworks, reviews existing literature, and compares waqf practices, gathering data from legal sources, academic articles, and policy reports. The findings show that while waqf could significantly boost Indonesia's economy, issues like weak legal support, lack of transparency, and limited skills among waqf managers hold back progress. Innovative models, such as cash waqf linked sukuk, blended finance waqf and crowdfunding waqf, are proposed as effective solutions. In conclusion, to fully realize waqf's potential for sustainable economic growth, comprehensive reforms are needed, including improving the skills of waqf managers, increasing transparency, and updating legal frameworks. By adopting new financing models and encouraging public participation, waqf can become a vital part of inclusive economic development in Indonesia.

Keywords: ***Waqf, Sustainable Development, Indonesia, Innovative Financing, Legal Frameworks.***

Introduction

In recent years, Islamic finance has increasingly contributed to the promotion of sustainable development. Several studies have explored its potential to support environmental initiatives, particularly in renewable energy (Hermala et al., 2025). The issuance of global green sukuk plays a crucial role in this effort by fostering environmentally sustainable practices and helping to reduce carbon emissions (Suriani et al., 2024). Additionally, Islamic economics, which emphasizes social justice, social responsibility, and the sustainable use of resources, is a valuable asset in the pursuit of environmental sustainability(Shovkhalov, 2024).

Looking ahead, the global Islamic finance industry is projected to grow to approximately US$4.94 trillion by 2025, with Indonesian Sharia insurance accounting for 2% of total global Islamic financial assets(A. Ibrahim et al., 2024). Countries such as Malaysia, Pakistan, Indonesia, the UK, and Saudi Arabia leverage Islamic finance to address various social and economic challenges, with each financial tool uniquely impacting community well-being. Key components of Islamic finance include *zakat*, *infaq*, alms, *waqf*, and Islamic microfinance, all of which contribute to addressing these issues (A. Ibrahim et al., 2024).

Among these components, *waqf* stands out for its potential to provide sustainable funding for small and medium-sized enterprises (SMEs) through Islamic endowment-based financing. This can take the form of interest-free loans, profit-sharing arrangements, and equity investments, all of which help alleviate financial burdens and promote business growth while adhering to Shariah principles (Sarabdeen et al., 2025). Despite the well-established role of *waqf* in enhancing social welfare and economic development, much of the existing literature focuses primarily on its charitable and religious applications. This narrow emphasis creates a gap in understanding how *waqf* can be innovatively utilized in entrepreneurial contexts beyond charitable purposes, particularly in non-religious sectors. Therefore, there is a critical need to explore how *waqf* institutions can diversify their investment strategies to support emerging businesses and entrepreneurship, thereby extending their impact beyond traditional charitable activities(Sarabdeen et al., 2025).

Indonesia, according to the Ministry of Religious Affairs in 2022 holds the largest *waqf* land in the world at approximately 440,512 *waqf*, totaling 57,263.69 hectares. It predominantly utilizes these assets for mosques and prayer rooms, which account for about 73% of the total. Educational facilities represent around 13.3%, while social purposes, such as cemeteries, make up about 13.7%. If these assets were utilized more productively, they could significantly contribute to Indonesia's economy, potentially representing around 19.4% of the country's gross domestic product. However, only about 57.42% of these have been certified, leaving 42.58% without certification as Directorate of *Zakat* and *Waqf* Empowerment report in 2023. Additionally, the potential for cash *waqf* is estimated to reach IDR 180 trillion annually. The Indonesian *Waqf* Board reported that cash *waqf* acquisition only reached IDR 1.4 trillion in March 2022 (Caniago & Satibi, 2024).

The development of *waqf* in Indonesia has not progressed as swiftly as in other countries, primarily due to the community's emphasis on traditional uses such as mosques, madrasas, cemeteries, and orphanages. This situation underscores the urgent need for more productive *waqf* initiatives that can effectively address contemporary challenges, including climate change and environmental protection (Firmannudin et al., 2024). While the role of *waqf* in enhancing social welfare and economic development is well-documented, much of the existing literature tends to focus on its charitable and religious applications. This has resulted in a notable lack of empirical research on how *waqf*-based funding can be adapted to support entrepreneurship, particularly in non-religious sectors (Sarabdeen et al., 2025).

An analysis of the research framework on *waqf* in the Scopus Database from 1990 to 2020 reveals a limited number of publications prior to 1990, with 527 items sourced from 223 different publications and authored by 880 individuals during this period. *Waqf* research can be categorized into three main sub-areas: studies on *waqf* fundamentals, analyses of cash *waqf*, and investigations into various *waqf* applications within Islamic social finance (Uluyol et al., 2021). This highlights the need for a broader exploration of *waqf*'s potential, particularly in fostering entrepreneurship, enhancing social welfare, and addressing contemporary challenges.

In response to these needs, several studies have proposed new models to enhance the potential of *waqf*. For instance, Hassan et al. (2023) explored the potential of *waqf*-blended finance through crowdfunding in Indonesia, investigating the feasibility of this approach for developing *waqf*-blended finance. Their findings provide valuable insights for implementing a *waqf*-blended financing model in the country. Similarly, Supriatna et al. (2024) focused on a *waqf* empowerment model based on benefit analysis, examining the utility of *waqf* and developing a model aimed at empowering *waqf* endowments. This study notably emphasizes empowerment models related to the economic dimension, particularly for significant *waqf* endowments in West Java and across Indonesia, such as mosques and educational institutions (schools/madrasas).

This research is novel in its approach to expanding the understanding of *waqf* beyond its traditional charitable and religious applications. By focusing on the intersection of *waqf* and economic value, the study aims to introduce innovative financing models that leverage *waqf* assets for economic development. The exploration of *waqf*-blended finance through crowdfunding represents a significant advancement in the literature, as it combines modern financial practices with traditional Islamic principles. Additionally, the development of a *waqf* empowerment model based on benefit analysis will provide a framework for assessing the economic impact of *waqf* endowments, particularly in the context of significant assets such as mosques and educational institutions.

The study will outline the key legal frameworks governing waqf in Indonesia. It will also establish the relationship between sustainable economic development and waqf as an instrument of Islamic social tools. Furthermore, the research will propose innovative models of waqf that could potentially improve sustainable economic development. It will identify specific challenges that hinder the effectiveness of waqf development in Indonesia and analyze how these challenges impact the operational capacity of waqf institutions. Finally, the study will suggest innovative strategies and reforms that can be implemented in Indonesia to enhance waqf development and optimize its contributions to sustainable economic growth.

While this study aims to provide valuable insights into the potential of *waqf* in supporting sustainable economic development, it is important to acknowledge its limitations. First, the research will primarily focus on the Indonesian context, which may limit the generalizability of the findings to other countries with different legal frameworks regarding *waqf*. Second, the study will rely on available data and literature, which may not fully capture the complexities and nuances of *waqf* management and its economic implications. Finally, the exploration of innovative models may face practical challenges in implementation, which will require further empirical research to validate the proposed strategies.

Methodology

This research employs a normative legal research method to explore potential innovative waqf models, particularly in relation to sustainable development. The study focuses on examining legal frameworks, specifically the Indonesian Constitution and relevant national and regional laws that govern waqf management. A qualitative approach is adopted, emphasizing descriptive analysis to investigate the legal and social challenges faced by waqf. This method facilitates a comprehensive understanding of the complexities surrounding the regulatory environment and the need for innovative models that promote sustainable development. The legal materials for this research include primary sources, such as the Indonesian Constitution and pertinent national and regional laws governing waqf. Secondary materials consist of academic articles, policy reports, and analyses related to innovative waqf models and sustainable development. Tertiary materials include case studies and examples of how waqf is managed and utilized in various countries compared to Indonesia. Data collection involves a systematic review of literature and legal documents. This includes accessing library databases like ProQuest to gather relevant academic articles, legal texts, and policy documents. The research will also incorporate a comparative analysis of waqf practices in different countries to identify best practices and innovative approaches that can be adapted to the Indonesian context.

Discussion and Results

The Indonesia waqf's legal framework

Waqf practices among Muslims in Indonesia date back to the arrival of Islam, evolving through various historical phases, including the sultanate and colonial eras. Today, waqf continues to play a vital role in the socio-economic landscape, although it faces challenges that require regulatory improvements. Starting 2004, The Indonesian government has implemented significant reforms to enhance waqf institutions through Waqf Law No. 41/2004, which addresses all types of waqf. This law outlines key aspects, including the duties of waqf managers and the various forms of waqf, and it also established the Indonesian Waqf Board (BWI). However, the law has faced criticism for lacking comprehensiveness, as many mosques, waqf lands, and waqf universities continue to be poorly managed(Supriatna et al., 2024).

To support the implementation of this law, Government Regulation Number 42 was issued in 2006, followed by Presidential Decree Number 75 in 2007, which established the Indonesian Waqf Board as an independent body responsible for managing waqf in Indonesia. Since the enactment of this law, public perception of waqf has evolved significantly; initially, many viewed waqf solely as land designated for the construction of mosques, madrasas, and tombs. However, it has now transformed into a movable and more productive asset(Caniago & Satibi, 2024). According to Law Number 41 of 2004, "Waqf refers to a legal action performed by a waqf donor (Wakif) who separates or allocates part of their property for perpetual or temporary use, intended to serve the interests of religion or public welfare in line with Islamic sharia." Article 16 of this law emphasizes that waqf encompasses not only immovable objects but also movable assets.

The development models for waqf outlined in Law No. 41 of 2004 consist of two main frameworks. The first is the fixed asset waqf management model, which involves the administration of waqf assets that produce goods and services, including land. This model includes productive waqf land, which serves as a factor of production, as well as waqf assets in the form of investments. The second framework is the cash waqf management model, which encompasses various forms such as cash waqf, stock waqf, and takaful waqf. These models focus on the careful management and utilization of funds contributed as waqf assets(A. Ibrahim et al., 2024).

In light of other regulations, there are several significant challenges to the advancement of waqf in Indonesia (Hassan et al., 2023):

1. The use of waqf assets as collateral is prohibited due to the Indonesian government's commitment to protecting these assets in accordance with Islamic law and Agrarian Law No. 5/1960.
2. According to Government Regulation No. 42/2006, financial institutions, including Islamic banks, are not allowed to serve as waqf administrators (nazir or mutawalli). The demand for collateral by banks to finance waqf institutions poses a major obstacle to the advancement of waqf projects in Indonesia. As a result, waqf institutions remain reliant on public funding, leading to a gradual decline in the role of banks as commercial financiers. Beyond the legal considerations, academic experts have highlighted regulatory barriers and recommended a review of the implementation of these regulations, particularly regarding impact assessments and the enforcement of penalties. The existing waqf regulations are inadequate and in need of enhancement.
3. There is a lack of professionals or experts in commercial enterprises within waqf organizations.

Regulatory support is essential for the advancement of waqf. Law No. 41 of 2004 is now inadequate in addressing the rapid changes in the financial industry. Currently, several regulations are seen as obstacles to the development of waqf. For instance, obtaining a cash waqf certificate or making a cash waqf pledge requires physical signatures, and the existing legal framework does not support digital processes. This limitation hinders public participation in cash waqf initiatives. In contrast, Bank Shariah Indonesia has adopted a new practice that allows transactions to be completed digitally without the need for in-person visits, as their rules permit e-signatures. However, key stakeholders interpret regulations differently, leading to divergent perspectives(Hassan et al., 2023).

The sustainable economic development and maqasid al-shari'ah

The Islamic perspective on sustainable development is fundamentally rooted in its vision of an ethical economy, society, and environment, derived from the values and principles outlined in the Qur'an and Sunnah. This perspective promotes growth, social justice, and overall well-being. However, the Shari'ah, which serves as the foundational framework for Islamic finance in fostering ethical economic, social, and environmental sustainability, has often been overlooked. This neglect has created a disconnect between the theoretical underpinnings and practical applications of Islamic finance (A. A. Ibrahim, 2022).

Maqasid al-Shari'ah, with its five guiding principles, offers a comprehensive approach to economic development that harmonizes environmental, social, and economic objectives. It advocates for inclusive and sustainable growth that benefits both current and future generations (Raimi et al., 2024).

1. The first pillar of Maqasid al-Shari'ah, Preservation of Religion (POR) or Hifz al-Din, emphasizes the commitment of Islamic sustainable finance (ISF) to align financial activities with Shariah principles, avoiding harmful industries like alcohol and gambling. This adherence fosters an environment conducive to green entrepreneurship and sustainable development while upholding religious values and social cohesion.
2. The second pillar, Preservation of Life (POL) or Hifz al-Nafs, prioritizes investments in projects that enhance environmental sustainability and public health, such as renewable energy and clean water initiatives. This focus promotes green entrepreneurship and supports sustainable development goals related to health and environmental protection.
3. The third pillar, Preservation of Progeny (POP) or Hifz al-Nasl, encourages investments in sustainable agriculture, conservation, and education to ensure intergenerational equity and environmental protection. This approach addresses the needs of future generations and promotes goals like poverty reduction and food security.
4. The fourth pillar, Preservation of the Intellect (POI) or Hifz al-Aql, supports investments in education, research, and innovation to enhance human capital and technological advancement. By financing green technology and educational programs, ISF fosters intellectual growth and contributes to sustainable development goals related to innovation.
5. The fifth pillar, Preservation of Wealth (POW) or Hifz al-Mal, focuses on using ethical investment principles and risk-sharing mechanisms to preserve and grow wealth. This promotes economic stability and social justice by financing small and medium-sized enterprises (SMEs) and community development projects, thereby supporting inclusive economic growth and reducing inequality.

In this context, Waqf plays a vital role in promoting economic growth in alignment with the Sustainable Development Goals (SDGs) by alleviating poverty, enhancing social welfare, creating job opportunities, and funding small businesses. It also contributes to reducing government expenditures, restoring income distribution, and supporting sustainable development projects. As a social and financial mechanism, waqf advances sustainable economic development and effective poverty alleviation programs. Waqf institutions generate funds through various means, such as cash donations and crowdfunding, which are then used to support training programs and provide financial assistance to entrepreneurs, further addressing societal goals related to the SDGs (Dembele & Bulut, 2021). Additionally, productive waqf plays a vital role in addressing climate change and protecting the environment. Waqf-based forest conservation, as one of the assets of waqf, aims at long-term ecological goals and represents an innovative approach to environmental preservation. In Islamic law, waqf is designed to provide social and economic benefits, making the establishment of waqf forests particularly relevant. These forests, created on waqf lands, can significantly contribute to environmental efforts both locally and globally, supported by initiatives like Social Forestry (Firmannudin et al., 2024).

For example, the Bogor Waqf Forest, established in 2018 in Cibunian Village, Bogor Regency, exemplifies this practice in Indonesia. The Bogor Waqf Forest Foundation has emerged as a key player in the sector, offering a unique approach through its three main programs—ecology, economy, and education. In just four years, it has developed three areas across five waqf forest locations, covering approximately one hectare. This initiative not only aligns with the principles of Maqasid al-Shari'ah but also demonstrates the potential of waqf to contribute to sustainable development and environmental preservation (Firmannudin et al., 2024).

Innovative waqf models for sustainable economic development

Countries around the world manage waqf in diverse ways (Medias et al., 2021), reflecting their unique cultural and social contexts. In Bangladesh, for instance, 22% of waqf lands, comprising 150,593 parcels, are allocated by waqf institutions primarily to religious bodies (93.5%), with the remainder supporting public services in education and health. In Malaysia, donated lands are predominantly used for mosques (75%), followed by schools (8.2%), suraus (6.68%), charities (1.84%), and graves (0.4%). Educational institutions in Malaysia utilize waqf funds to provide scholarships, finance the education sector, pay teachers' salaries, and enhance educational infrastructure and services. Additionally, corporate waqf dividends are allocated for investments (70%), charitable purposes (25%), and 5% to the Johor Islamic Religious Council. Jordan channels waqf resources into various sectors, with 78% directed towards religious activities, 6% for social initiatives, 2% for education, 11% for health, and 3% for other purposes. Waqf in Jordan is also used to construct integrated complexes that include mosques, schools, markets, meeting houses, and libraries. In Turkey, waqf benefits are distributed across social activities (80.2%), institutional expenses (12.1%), health (4.2%), education (2.4%), and culture (1.2%). This has led to the establishment of 1,666 al-Qur'an learning centers, the provision of medical services, hospital financing, and various educational facilities. In Indonesia, the introduction of Law No. 41 of 2004 has allowed waqf models to evolve, enabling a broader range of assets, including movable properties and cash waqf. This evolution has led to innovative management practices and increased public engagement, enhancing waqf's economic impact.

1. Managing the Waqf Asset

Productive waqf programs offer economic advantages that can enhance community welfare. Businesses such as minimarkets and clinics generate employment opportunities, increase income, and contribute to local economic development (Supriatna et al., 2024).

a. Fixed Asset Waqf

The fixed asset waqf management model involves the oversight of waqf assets that produce goods and services, including land components. This model includes productive waqf land, which acts as a vital factor of production, along with waqf assets represented as investments (A. Ibrahim et al., 2024). In Indonesia, however, the utilization of these land assets remains primarily focused on mosques and prayer rooms, which account for approximately 73%, while educational facilities make up about 13.3%, and around 13.7% are allocated for social purposes like cemeteries. If these assets were employed more productively, their potential contribution could be significant, representing around 19.4% of Indonesia's gross domestic product(Caniago & Satibi, 2024).

To enhance productivity and address the limited social aspect of fixed asset waqf, empowering waqf can serve as an alternative strategy to optimize the economic benefits of these assets. For instance, waqf land currently designated for mosques could be repurposed for various economic activities, such as renting function rooms, providing refillable drinking water, establishing cooperatives, operating canteens, and managing waqf funds (Supriatna et al., 2024).

A prime example of effective mosque waqf in Indonesia is the Salman Mosque at ITB, established in 1972 (Supriatna et al., 2024). The services offered at this mosque extend beyond worship activities, such as congregational prayers, lectures, and Friday prayers; they also include economic functions like managing zakat, alms, waqf, cooperatives, canteens, and the rental of land and buildings. Additionally, the mosque supports education through resources like the Salman Reading Corner, multipurpose rooms, and various classes. Thus, the mosque's significance lies not only in its role as a place of worship but also in the economic and educational services it provides. In terms of revenue, Salman ITB reported IDR 31.2 billion in 2017, IDR 26.1 billion in 2018, IDR 34.4 billion in 2019, and IDR 60 billion in 2020 (Supriatna et al., 2024).

Waqf for schools, madrasahs, and pesantren (Islamic boarding schools) can also be empowered. A notable example is the Daarut Tauhiid Islamic Boarding School, which implements various waqf-related programs that significantly benefit the community. Founded by KH Abdullah Gymnastiar (Aa Gym) in 1990 under the Daarut Tauhiid Pesantren Foundation, this institution manages a diverse range of assets through both productive and social programs. Productive initiatives include a mini market, supermarket, health clinic, Darul Hajj building, Daarul Jannah cottages, DJ canteen, MQTV television station, and MQFM radio station, as well as property assets like office buildings and facilities for community empowerment, agriculture, and plantations. The social waqf program encompasses school buildings from kindergarten to high school/vocational high school, classrooms, dormitories for boys and girls, and infrastructure for various programs at Daarut Tauhiid (Supriatna et al., 2024).

b. Cash waqf management

Cash waqf refers to the collection of funds from waqif (individuals who donate waqf) to be invested in productive assets that adhere to sharia principles. The returns from these investments are then distributed to beneficiaries (mauquf alaih). During the Ottoman period, cash waqf was extensively utilized for social development initiatives, including education, healthcare, and social welfare, all funded through waqf resources (Bawono et al., 2023). The cash waqf management models encompass different types, including cash waqf, stock waqf, and takaful waqf. These models require careful management and use of the funds donated as waqf assets (A. Ibrahim et al., 2024). In Indonesia, the potential for cash waqf is significant, as the Indonesian Waqf Board (Badan Wakaf Indonesia, or BWI) reported that cash waqf collections reached 1.4 trillion rupiah in March 2022, with the potential to grow to 180 trillion rupiah annually. This highlights a substantial opportunity for cash waqf in the country, making it a source of hope for various stakeholders by serving not only religious purposes but also contributing to the economic improvement of the community. To capitalize on this potential, the Indonesian government has recently launched an innovative initiative called Cash Waqf Linked Sukuk (CWLS). This platform marks the first integration of cash waqf with Government Islamic Securities (Surat Berharga Syariah Negara, or SBSN). The CWLS aims to provide a mechanism for cash waqf donors (wakif), both contemporary and traditional, to utilize their contributions as safe, productive, and impactful investment tools. The income generated from CWLS is allocated to nazir (the managers of waqf funds and operations) to support social programs and enhance the economy. As an Islamic financial instrument, CWLS funds are exclusively invested in halal projects. This initiative allows the private sector to actively engage in improving profit-generating public institutions while enabling the government to establish systems and facilities for individuals and organizations to securely and efficiently manage their funds, thereby contributing to the strengthening of public finances (Hasibuan & Lubis, 2024).

Currently, CWLS employs a sukuk wakalah agreement due to its flexibility in managing underlying assets. Waqf-based sukuk represents the integration of waqf and sukuk, providing a promising investment approach where waqf assets serve as the foundation for sukuk issuances. Instruments like CWLS are crucial in bridging the gap between the for-profit and non-profit sectors while also ensuring secure infrastructure (Hasibuan & Lubis, 2024).

2. Financing the Waqf Asset

Managing waqf faces significant challenges, primarily due to insufficient funding and the prohibition of using waqf assets as collateral(Hassan et al., 2023). As a result, many waqf properties remain underutilized, leading to financial constraints that impede effective management and development. The inability to leverage these assets further limits potential growth and investment opportunities.

To address these challenges and optimize waqf assets, several financing models have been proposed, such as:

a. Cash for Waqf (CfW)

One such model is Cash for Waqf (CfW). While CfW is not classified as a waqf itself, it serves as a mechanism for collecting waqf funds to finance specific projects. This approach can help resolve the ongoing debate regarding the permissibility of cash waqf by converting monetary contributions into tangible, fixed assets (Bawono et al., 2023).

Cash waqf refers to the endowment of money intended to generate benefits for the community, whereas Cash for Waqf (CfW) is a fundraising tool specifically designed to finance designated waqf projects. In essence, cash waqf represents the actual endowment, while CfW facilitates that endowment. Cash waqf focuses on monetary contributions that are not tied to any specific investment, whereas CfW is linked to particular waqf projects, connecting the funds to predetermined investments or initiatives (Bawono et al., 2023). This distinction highlights the complementary roles of cash waqf and CfW in enhancing the effectiveness of waqf management.

b. Crowdfunding Waqf Model (CWM)

Crowdfunding Waqf Management (CWM) is a form of Cash for Waqf (CfW) that empowers waqf institutions to collect significant waqf funds. CWM involves two primary parties: waqf institutions and crowdfunders. In this context, crowdfunders represent the broader community, referred to as the "crowd," where individuals can contribute relatively small amounts to support specific waqf projects (Bawono et al., 2023).

Crowdfunding enables individuals to engage in fundraising from anywhere, leveraging technology-based platforms to gather funds for various purposes. This approach is particularly effective during natural disasters, as the willingness to donate often increases significantly during such times. In Indonesia, donation crowdfunding for disaster relief has been active since the Aceh tsunami in 2008 and has continued through the COVID-19 pandemic in 2020. Furthermore, crowdfunding can facilitate collaboration on shared goals; for example, over USD 600,000 was raised through the crowdfunding platform Kitabisa.com (campaign link: https://kitabisa.com/campaign/38661) to finance the construction of the R80, the first Indonesian aircraft designed by former President BJ Habibie (Hassan et al., 2023). In Indonesia, waqf institutions like the Indonesian Waqf Board (BWI) aim to enhance the productivity of waqf land by developing it into hotels, shopping malls, schools, hospitals, and other facilities. This development requires substantial funding, which BWI can secure through contributions from crowdfunders to implement its plans for waqf land development (Bawono et al., 2023). The crowdfunding-waqf model effectively merges traditional waqf principles with modern crowdfunding techniques to facilitate fundraising for waqf projects. This model enhances transparency by utilizing online platforms that allow donors to track the collection and distribution of funds, thereby ensuring accountability and fostering trust among contributors (Hassan et al., 2023).

c. Waqf Blended Finance

At present based on Indonesia Law, Nazir cannot implement any financing model to optimize funding for transforming waqf assets into productive resources, as banks demand a guarantee or collateral from them. However, the Indonesian Waqf Board (BWI) has stated that regulations prohibit the use of waqf funds as collateral(Hassan et al., 2023). This issue could be addressed by introducing a guarantor for the project that will be developed through the waqf. The funding for the project would come from both waqf resources and the commercial sector, which would provide a guarantee to the bank, even if it covers only half of the required amount.

The objective of blended finance is to channel commercial funds, such as bank financing, into the development of social projects. This approach aims to overcome the limitations that banks face in funding waqf programs and to instill greater confidence in waqf initiatives. The role of a guarantor can serve as an alternative solution to the challenges posed by the lack of collateral. While the collection of waqf can act as collateral, the guarantor's involvement becomes crucial in the event of a default. Instead of seizing or selling the collateral from waqf proceeds, the guarantor would be approached to cover some of the defaults first. This allows banks to seek assistance from the guarantor in recovering the defaulted amounts. The guarantor's support can be partial, not necessarily covering all defaults, but it can provide the bank with a safety net, allowing time for the waqf project to recover and settle its obligations. This model adds an additional layer of protection before the bank takes action regarding the collateral and serves as an alternative risk mitigation strategy for banks. Consequently, this approach is viewed as a viable concept for Islamic banks (Hassan et al., 2023).

Challenges Hindering Waqf Development in Indonesia

The challenges to waqf development in Indonesia can be categorized into two main types: internal and external challenges. Internal challenges pertain to the difficulties faced by nazir, the primary managers of waqf, while external challenges involve the impact of outside factors (Hassan et al., 2023). Internally, one significant issue is the lack of trust in nazir, both from private and government entities. Currently, waqf is often given to individuals, mosques, or directly to educational institutions, but not all of these entities are recognized as nazir. This misunderstanding is prevalent in Indonesia and contributes to the overall lack of trust. Additionally, the absence of transparency in fund allocation and utilization has created uncertainty regarding the outcomes of waqf contributions. Most reports from conventional nazir are published only annually on their websites, and if a mosque lacks digital systems, updates are communicated solely through announcements on-site. Consequently, waqif (donors) find it challenging to monitor progress effectively(Hassan et al., 2023).

Another internal challenge is the insufficient capacity of nazir to develop waqf products and services. The Indonesian Waqf Board (BWI) has noted that nazir often lack the knowledge and skills necessary to innovate or creatively develop waqf models. A study by BWI revealed that many nazir institutions do not possess adequate business acumen or skills, hindering their ability to identify opportunities for commercially sustainable waqf projects. Most nazir administrators come from social or philanthropic backgrounds rather than finance or business, making it difficult for them to plan productive waqf projects with a business mindset. Furthermore, there is a limited understanding of cash waqf, which also impedes waqf development. For instance, of the 17 registered Sharia Financial Institutions Receiving Money Waqf (LKSPWUs), only a few have successfully received cash waqf, indicating that many institutions have yet to collect any waqf at all.

This situation reflects nazir's lack of confidence in creating cash waqf programs, stemming from their unfamiliarity with how to operate such initiatives, let alone innovate within them (Hassan et al., 2023). The primary objective of waqf management is to effectively manage and enhance the value of waqf properties while cultivating a culture of waqf for the benefit of the community. This involves not only increasing the value of waqf assets but also promoting best practices in waqf management (Priyadi et al., 2023). Addressing the capacity gaps faced by nazir is therefore essential to creating a dynamic, responsive waqf ecosystem capable of adapting to evolved economic conditions and donor expectations.

Externally, one of the primary challenges facing waqf development is literacy. The perception of waqf is predominantly linked to fixed assets, commonly referred to as the "3M"—mosques, maqom (graveyards), and madrasah (schools). As a result, many people are unfamiliar with the productive concept of waqf, which often leads to a lack of understanding regarding cash waqf models, making them seem alien and complex (Hassan et al., 2023). This limited understanding not only restricts the potential donor base but also hampers the ability of existing waqf institutions to innovate and expand their offerings. Contributing factors to this low literacy include limited understanding of the concept, legal framework, and purpose of waqf, as well as insufficient socialization from waqf institutions. Distrust and misconceptions about the legality and effectiveness of waqf as a means of social and religious contribution further exacerbate the issue(Caniago & Satibi, 2024). Another significant external challenge is the regulatory barriers that hinder the creation of innovative waqf models. Regulatory support is crucial for waqf advancement, yet in Indonesia, waqf is primarily governed by UU No. 41 of 2004, which does not keep pace with rapid changes in the financial industry. Many existing regulations are seen as burdensome for waqf development; for instance, obtaining a cash waqf certificate or making a cash waqf pledge requires physical signatures, and the current legal framework does not accommodate digital procedures. This limitation complicates public participation in cash waqf initiatives, stifling potential growth and innovation (Hassan et al., 2023).mMoreover, the traditional approach to waqf management hinders progress toward more modern practices. According to the Ministry of Religious Affairs' waqf information system in 2022, there are 440,512 waqf land points in Indonesia, covering a total area of 57,263.69 hectares. However, only about 57.42% of these waqf land points have been certified, leaving 42.58% without certification. This lack of certification has led to numerous conflicts and land disputes, particularly when wakif pass away. The complicated certification process further exacerbates these issues, as many wakif avoid certifying their waqf assets due to its complexities. Additionally, the lack of coordination among relevant institutions, including the Ministry of Religious Affairs, the National Land Agency, and the Indonesian Waqf Board, complicates the certification process and impedes the overall development of waqf management in the country (Caniago & Satibi, 2024).

Strategy to address the challenges

Several strategies can be implemented to overcome the challenges hindering waqf development in Indonesia, including improving transparency and accountability, strengthening the capacity of waqf managers, increasing public awareness, and reforming the regulatory framework. First, improving transparency and accountability among nazir—the primary managers of waqf—is essential to rebuild trust, which has been a major obstacle. Utilizing modern donation platforms that offer real-time information on funds collected, project goals, and responsible parties can provide donors with clear visibility into how their contributions are used. Regular reports and notifications keep donors informed and increase confidence in the system. These platforms often work with auditing firms to further ensure accountability and proper fund management, which has helped strengthen trust in Indonesia's waqf sector (Hassan et al., 2023).

Second, to address the insufficient capacity of nazir in developing waqf products and services, it is crucial to enhance the knowledge of both nazir and wakif through initiatives aimed at increasing literacy and awareness about waqf. This need arises from the identified gaps in nazir's skills and understanding, which impede their ability to innovate and create sustainable waqf models. Educational programs should focus on promoting the various types and purposes of waqf, improving the public image of waqf management organizations, and ensuring greater transparency in their governance (Caniago & Satibi, 2024). Moreover, it is essential to provide training in business and management tailored to the backgrounds of nazir. This training will equip them with the necessary skills to identify opportunities for commercially sustainable waqf projects, thereby enhancing their effectiveness as managers.

Third, increasing public understanding and participation through comprehensive educational initiatives is vital. Greater awareness can encourage broader support for waqf initiatives. It is important to note that Badan Waqf Indonesia (BWI) was established not to take control of waqf assets already managed by current nazir, but to support and develop them. The goal is to enhance the management and productivity of waqf assets, ultimately benefiting the community through improved social services, economic empowerment, and public infrastructure development. By ensuring a well-distributed network of waqf managers across the country, BWI aims to bridge the awareness gap among the public. The credibility of nazir is a significant concern for many contemporary scholars, as it is vital for attracting cash waqf contributions; donors are more likely to contribute when they trust the integrity of the nazir. Thus, a holistic approach that combines education, support, and public engagement is essential for the sustainable development of waqf initiatives (Aldeen et al., 2022).

Finally, reforming the regulatory framework is critical to enable innovation and modernization within the waqf sector. Current laws, such as Law No. 41 of 2004, do not adequately support digital processes or modern financial practices, presenting obstacles to public engagement and growth. Updating regulations to allow digital transactions, streamline asset certification, and accommodate new financing models can facilitate more efficient management of waqf assets. Involving key stakeholders—including nazir, wakif, and legal experts—in the reform process will help ensure that updated regulations address real-world challenges and foster a conducive environment for waqf development (Hassan et al., 2023). By updating the regulations to reflect contemporary financial practices and technological advancements, we can create a more conducive environment for waqf development. This reform should include provisions that facilitate digital transactions and streamline the certification process for waqf assets, making it easier for nazir to manage and promote waqf effectively.

Conclusion

This research underscores the potential of waqf as a tool for sustainable economic development in Indonesia. Traditionally focused on charitable purposes like funding mosques and schools, waqf's extensive land holdings present opportunities for economic growth. To harness this potential, innovative waqf models aligned with the Sustainable Development Goals (SDGs) are necessary.

Current legal frameworks, particularly Law No. 41 of 2004, provide a basic structure for waqf management but fail to address evolving needs. Challenges such as complicated certification processes, restrictions on using waqf assets as collateral, and limited support for digital transactions hinder waqf institutions. Additionally, issues like inadequate skills among waqf managers (nazir), lack of transparency, and low public trust pose significant barriers. To address these challenges, a comprehensive approach is needed. This includes enhancing nazir skills through training, improving transparency with modern technologies, and reforming regulations to accommodate digital advancements. Innovative financing models, such as cash waqf-linked sukuk and crowdfunding, can help integrate waqf into Indonesia's economy.

In summary, transforming the waqf sector in Indonesia requires legal reform, capacity building, technology adoption, and innovative financial products. By optimizing waqf assets and improving institutional operations, waqf can significantly contribute to inclusive and sustainable economic growth, benefiting society as a whole. This research provides a foundation for policymakers and practitioners to leverage waqf as a catalyst for social and economic change in Indonesia and beyond.

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