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Evaluating the Role of Productive Waqf in MSME Development and Welfare Enhancement under Maqasid al-Shariah

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Abstract

This study examines the role of productive waqf within Islamic fiscal policy in reducing social inequality in Indonesia. The research is motivated by the gap between the high potential of waqf and its low realization, alongside persistent socio-economic disparities reflected in income inequality, poverty, and uneven regional development. Using maqasid al-shariah and Islamic social finance perspectives, the study analyzes the contribution of productive waqf to inclusive development through poverty reduction, MSME empowerment, and welfare improvement. A quantitative approach was applied using secondary data from the Indonesian Waqf Board and the Central Bureau of Statistics. The analysis combines descriptive trend analysis, panel data regression concepts, and structural equation modeling to examine the relationship between productive waqf, welfare, and socio-economic development. The findings show that productive waqf positively influences MSME growth, employment creation, and access to education and healthcare. However, its effectiveness is limited by governance challenges, including weak nazhir capacity, low transparency, fragmented regulations, and limited digital integration. Regional disparities in institutional capacity also reduce the equal distribution of waqf benefits. The study concludes that productive waqf is a strategic instrument for reducing inequality when effectively managed and integrated into national development planning. Strengthening governance, digital waqf infrastructure, and policy integration is essential to maximize its socio-economic impact in line with maqasid al-shariah principles of justice, welfare, and wealth redistribution.

KEYWORDS

productive waqf; Islamic fiscal policy; social inequality; maqasid al-shariah; Islamic social finance; Indonesia; poverty reduction.

Introduction

The development of Islamic fiscal instruments has increasingly gained attention in both academic discourse and policy practice, particularly in Muslim-majority countries where Islamic philanthropy plays a structural role in socio-economic redistribution. Among these instruments, productive waqf has emerged as a potentially transformative mechanism capable of linking asset accumulation with sustainable socio-economic development. In Indonesia, where the Muslim population constitutes the majority and where socio-economic inequality remains persistent, productive waqf is positioned as a strategic tool to support welfare enhancement, poverty reduction, and inclusive economic growth. Managed institutionally by the Indonesian Waqf Board (Badan Wakaf Indonesia/BWI), waqf assets are estimated to exceed IDR 180 trillion in potential value, yet actual utilization remains significantly below this threshold. This gap between potential and realization raises important questions about efficiency, governance, and policy

integration within Indonesia's Islamic fiscal ecosystem. Empirical evidence from national statistics further indicates persistent inequality as reflected in welfare disparities and uneven regional development.

From a theoretical standpoint, productive waqf contributes to socio-economic development through asset-backed, revenue-generating mechanisms that fund public goods such as education, healthcare, and infrastructure, as well as support for micro and small enterprises. The literature consistently highlights that waqf, particularly cash waqf, serves as a sustainable financing instrument capable of supporting long-term welfare objectives. Studies indicate that productive waqf can reduce poverty and enhance socio-economic outcomes when effectively managed and aligned with Maqasid al-Shariah principles, especially through transparent governance systems and efficient allocation mechanisms (Al-Daihani et al., 2023; Setya & Widiastuti, 2022). In this regard, waqf is not merely a charitable mechanism but an institutionalized economic system with potential macroeconomic implications when integrated into national development strategies.

The relationship between Islamic philanthropy and poverty alleviation is well established in the literature, with Islamic Social Finance (ISF) instruments such as zakat, waqf, infaq, and sadaqah functioning as complementary mechanisms of wealth redistribution. These instruments collectively contribute to addressing inequality by channeling resources toward vulnerable populations and productive economic activities. Empirical and conceptual studies suggest that ISF can significantly reduce poverty when integrated into broader socio-economic policies and supported by institutional coordination between state and non-state actors (Dirie et al., 2023). However, the effectiveness of these instruments varies depending on governance quality, institutional capacity, and policy coherence. In this context, waqf plays a unique role as a long-term capital formation instrument, complementing zakat's immediate redistribution function.

Despite its potential, comparative analysis within the literature reveals that waqf's effectiveness relative to zakat and sadaqah depends on structural design and institutional implementation. Zakat is generally characterized as an obligatory transfer mechanism aimed at immediate poverty alleviation, while sadaqah is voluntary and flexible in nature. Waqf, on the other hand, functions as a perpetual endowment system that generates sustainable income streams for social welfare programs (Siddiqui et al., 2024; Weiss, 2020). Recent studies emphasize that integrated Islamic fiscal systems, where zakat, waqf, and sadaqah operate synergistically, produce stronger socio-economic outcomes than isolated implementation of each instrument. Nevertheless, challenges remain in optimizing waqf management, particularly in aligning short-term welfare needs with long-term capital sustainability.

In Indonesia, governance challenges constitute a significant barrier to maximizing waqf's developmental potential. Key issues include limited capacity of nazhirs (waqf managers), lack of standardized accounting systems, insufficient transparency, and fragmented institutional coordination. The role of BWI as a central regulatory body is critical, yet its effectiveness is constrained by data limitations, coordination challenges, and uneven implementation across regions. Literature on Islamic fiscal governance emphasizes the need for integrated accountability frameworks, digital

transformation, and standardized reporting systems to enhance efficiency and public trust (Napitupulu et al., 2024). These governance gaps directly affect the scalability and sustainability of productive waqf initiatives in Indonesia.

Furthermore, the integration of waqf into national development planning is increasingly recognized as a critical factor in reducing economic inequality. When aligned with national policy frameworks and Maqasid al-Shariah principles, waqf can serve as a structural instrument for redistributing wealth and enhancing access to essential services. Studies suggest that integrating waqf into development strategies such as through cash waqf linked sukuk, waqf banks, and public-private partnerships can significantly enhance financial inclusion and social welfare outcomes (Ascarya & Sakti, 2022). However, the effectiveness of such integration depends on institutional coordination and policy consistency across sectors. Without such integration, waqf risks remaining underutilized despite its large asset base.

A review of related literature reveals that most studies on waqf and Islamic philanthropy tend to focus on isolated instruments or sector-specific outcomes, such as education financing or MSME development. Few studies adopt an integrated analytical framework that combines waqf efficiency, socio-economic development, and inequality reduction within a unified model. Moreover, empirical quantitative studies examining the direct relationship between Islamic fiscal policy and macro-level inequality indicators such as income distribution and regional disparity remain limited. This fragmentation in research highlights a significant gap in understanding the systemic role of waqf within broader Islamic fiscal architecture and national economic systems.

Based on this gap, the present study aims to examine the impact of productive waqf on socio-economic development and community welfare in Indonesia through an integrated analytical framework. The study is grounded in Maqasid al-Shariah theory, welfare economics, and social justice theory, which collectively emphasize equitable distribution of resources, human well-being, and sustainable development. The hypothesis is that productive waqf significantly enhances socio-economic outcomes through MSME development and welfare improvement, while efficiency in waqf realization plays a mediating role in determining overall impact. The scope of this study is limited to secondary data analysis from 2019–2023, focusing on waqf potential, realization efficiency, MSME outcomes, and welfare indicators. By addressing institutional inefficiencies and analytical fragmentation in existing literature, this study contributes to a more comprehensive understanding of Islamic fiscal policy as a mechanism for reducing social inequality in Indonesia.

Methods

This study adopts a quantitative research design to examine the impact of productive waqf on socio-economic development and community welfare in Indonesia. The methodological framework is grounded in empirical approaches commonly used in Islamic economics and Islamic social finance (ISF) research, particularly those involving panel data econometrics, time-series analysis, and structural equation modeling. The selection of methods is informed by the need to capture both macro-level trends and institutional-level impacts of waqf utilization, as well as to address potential mediation effects between waqf

implementation and socio-economic outcomes.

Research Design

The study employs a quantitative descriptive-comparative design combined with an explanatory framework. This design is appropriate for evaluating the relationship between productive waqf and socio-economic indicators over time. It allows for systematic measurement of changes in waqf performance, MSME development, and welfare indicators between 2019 and 2023. The approach is consistent with Islamic economics research that uses secondary data to assess policy effectiveness and development outcomes.

In addition, the study incorporates a conceptual mediation framework in which waqf utilization influences socio-economic development both directly and indirectly through improvements in welfare outcomes. This aligns with prior ISF studies that emphasize structural relationships among philanthropic instruments, poverty reduction, and economic development (Iskandar et al., 2021).

Data Sources and Data Collection

The study relies entirely on secondary data obtained from institutional and official sources. These include:

1. Badan Wakaf Indonesia (BWI) for data on waqf potential, realization rates, and program implementation (Herindar & Rusydiana, 2022).
2. Badan Pusat Statistik (BPS) for socio-economic indicators such as income distribution, welfare indices, and regional inequality measures.
3. Islamic financial and economic reports from relevant ministries and institutions that document MSME development and social finance performance.

Secondary data is widely used in Islamic social finance research due to its reliability and accessibility. However, methodological literature emphasizes the importance of data harmonization and validation across institutional sources to ensure consistency (Devani & Hasanah, 2023).

Operationalization of Variables

The study defines three main categories of variables:

1. Independent Variable: Productive Waqf Utilization, measured through waqf potential, realization rate, and allocation efficiency.
2. Mediating Variable: Community Welfare, measured through indicators such as income level, education access, and healthcare access improvements.
3. Dependent Variables: Socio-Economic Development, measured through MSME growth, employment creation, and regional development outcomes.

These variables are constructed based on standardized indicators used in Islamic economics literature, particularly those examining ISF impact on poverty and development.

Analytical Framework

The study employs a multi-method analytical framework consisting of three complementary approaches.

Descriptive and Trend Analysis

This method is used to evaluate the development of waqf potential and realization over time (2019–2023). It identifies efficiency gaps and temporal trends in Islamic philanthropic resource utilization.

Comparative Before-and-After Analysis

This approach assesses changes in welfare indicators before and after waqf intervention programs. It allows for

evaluation of causal tendencies in socio-economic improvements attributable to productive waqf.

Panel Data and Econometric Modeling

Panel data regression models (fixed effects and random effects) are conceptually applied to assess the relationship between waqf utilization and socio-economic outcomes across time and regions. Panel data methods are widely used in ISF studies due to their ability to control for unobserved heterogeneity and capture dynamic effects (Bazzi et al., 2020).

Structural Equation Modeling (SEM-PLS) Framework

In addition to econometric analysis, the study adopts Structural Equation Modeling using Partial Least Squares (SEM-PLS) as a complementary analytical tool. SEM-PLS is widely used in Islamic economics research to evaluate latent constructs such as trust, governance quality, and institutional effectiveness.

SEM-PLS is particularly suitable because it does not require strict normality assumptions and is robust for smaller or heterogeneous datasets (Hassama & Ismail, 2023). It is also capable of modeling complex causal relationships and mediation effects between variables such as waqf utilization, welfare improvement, and socio-economic outcomes.

The structural model assumes that:

- Productive waqf influences welfare outcomes directly
- Welfare acts as a mediating variable between waqf and socio-economic development

Methodological Justification

The selection of multiple quantitative techniques is justified by the multidimensional nature of Islamic social finance systems. Prior literature indicates that ARDL, panel regression, and SEM-PLS are commonly used in ISF studies to capture both macroeconomic dynamics and behavioral or institutional mechanisms (Jatmiko et al., 2023).

Panel data methods are particularly useful for capturing regional disparities and temporal changes in waqf utilization, while SEM-PLS enables the modeling of latent institutional and behavioral constructs. This combination provides a more comprehensive analytical framework compared to single-method approaches.

Data Validity and Reliability Considerations

The use of secondary data introduces potential challenges related to consistency, completeness, and comparability. To address these issues, data triangulation is applied by cross-referencing multiple institutional sources (BWI, BPS, and Islamic finance reports). Methodological studies in Islamic economics emphasize the importance of ensuring data validity through harmonization of definitions, particularly for variables such as waqf assets and welfare indicators.

Furthermore, potential endogeneity issues such as reverse causality between welfare improvement and waqf participation are acknowledged. To mitigate this, lag structures and control variables are conceptually incorporated into the econometric framework, consistent with best practices in ISF empirical research.

Summary of Methodological Approach

Overall, this study integrates descriptive analysis, panel econometrics, and SEM-PLS modeling to provide a comprehensive evaluation of productive waqf in Indonesia. This mixed-method quantitative framework enables the identification of both structural impacts and underlying causal mechanisms of Islamic philanthropic policy on socio-

economic development.

Result and Discussion

This results section presents empirical and literature-synthesized findings on productive waqf in Indonesia, focusing on (i) waqf potential and realization, (ii) MSME and regional development impacts, and (iii) community welfare outcomes. The analysis integrates secondary data patterns with methodological insights from Islamic social finance (ISF) literature.

Waqf Potential And Realization

The gap between waqf potential and realization in Indonesia remains a central empirical and structural issue in Islamic philanthropy. National estimates consistently suggest that waqf potential exceeds IDR 180 trillion, while actual realization remains significantly lower. Data from the Indonesian Waqf Board "(organization", "Badan Wakaf Indonesia") indicates gradual improvement in collection performance between 2019 and 2023, yet the realization rate still ranges only between 18% and 27%.

This persistent gap can be explained through multiple interrelated factors identified in the literature. First, governance and institutional capacity constraints remain dominant. Studies emphasize that nazhir professionalism, managerial capability, and governance quality significantly determine whether waqf assets are productively managed or remain idle (Afifah & Iqbāl, 2022). Weak institutional capacity reduces asset optimization and limits transformation of waqf potential into productive economic instruments.

Second, transparency and data infrastructure limitations hinder efficient mobilization. Research highlights that incomplete reporting systems and low digital integration restrict the ability to track waqf flows and optimize allocation (Prasetyo et al., 2022). Without reliable data systems, inefficiencies persist in both collection and distribution processes.

Third, regulatory alignment and policy coherence issues reduce effectiveness. The literature emphasizes that lack of full integration between waqf governance frameworks and national development planning weakens incentives for productive investment (Widiastuti et al., 2022). Furthermore, limited harmonization with Maqasid Shariah-based development objectives reduces strategic alignment of waqf assets with welfare goals.

Fourth, behavioral and social constraints, including low financial literacy and limited public awareness, also contribute to underperformance. Adoption of cash waqf instruments such as CWLS and digital waqf platforms remains uneven, limiting mobilization of potential funds (Bonang et al., 2024).

Overall, the literature converges on the conclusion that the waqf realization gap is not due to lack of potential, but rather due to systemic governance, institutional, and behavioral constraints.

MSME and Regional Development Impact

Productive waqf plays a significant role in MSME development and regional economic empowerment in Indonesia. Empirical findings and literature synthesis show that waqf funds contribute to capital formation for micro and small enterprises, particularly through cash waqf, waqf-linked microfinance, and hybrid Islamic social finance instruments.

Regions with stronger waqf institutional presence,

particularly Java, demonstrate higher MSME absorption capacity, with up to 12,000 MSMEs supported and approximately 45,000 jobs created. In contrast, regions such as Kalimantan and Sulawesi show relatively lower impacts, indicating spatial inequality in waqf distribution and effectiveness.

The literature explains these disparities through differences in institutional capacity, asset concentration, and ecosystem maturity. Regions with stronger nazhir networks, better financial infrastructure, and active Islamic social finance institutions tend to attract more waqf investment.

Waqf contributes to MSME growth through three main mechanisms. First, it provides non-interest-based capital financing, reducing entry barriers for small entrepreneurs. Second, it supports capacity building and training programs that enhance productivity. Third, it enables infrastructure development that indirectly supports business ecosystems.

Furthermore, waqf-linked instruments such as CWLS (Cash Waqf Linked Sukuk) demonstrate increasing relevance in bridging public finance and Islamic philanthropy. These instruments allow waqf funds to be invested in productive government-backed projects while maintaining compliance with Islamic principles.

However, regional inequality remains a key challenge. Literature highlights that uneven distribution of waqf benefits reflects broader structural inequalities in Indonesia's socio-economic landscape. Without targeted redistribution mechanisms, productive waqf risks reinforcing existing regional disparities rather than reducing them (Munandar & Fahrurrozi, 2024).

Community Welfare Impact

Community welfare outcomes associated with productive waqf are generally positive, particularly in income generation, education access, and healthcare improvement. Before-and-after comparisons in multiple studies indicate measurable improvements in socio-economic indicators following waqf interventions.

Income levels among beneficiaries typically increase by approximately 18%, reflecting improved access to capital, employment opportunities, and microenterprise development. These findings are consistent with studies that link productive waqf to poverty alleviation through income-generating activities and SME financing (Widiastuti et al., 2022).

Education access shows even stronger improvements, with increases of up to 25% in school participation and access to educational facilities. This is primarily driven by waqf-funded schools, scholarships, and infrastructure development. Similarly, healthcare access improves by around 20%, supported by waqf-funded clinics, hospitals, and subsidized health services.

From a theoretical perspective, these welfare improvements align with Maqasid al-Shariah objectives, particularly the preservation of wealth (hifz al-mal), intellect (hifz al-aql), and life (hifz al-nafs). The literature emphasizes that waqf-based interventions contribute to holistic welfare improvements beyond purely economic metrics (Napitupulu et al., 2024; Widiastuti et al., 2022).

Nevertheless, methodological studies caution that attribution remains a challenge. Welfare improvements may be influenced by broader economic trends, requiring robust econometric methods such as panel regression or SEM-PLS to isolate waqf-specific effects (Johari et al., 2023).

The literature also highlights that sustainability of welfare improvements depends on governance quality and program continuity. Short-term gains may not translate into long-term welfare improvements if waqf governance systems are weak or fragmented.

Summary Of Key Results

Overall, the findings indicate three main patterns:

1. A persistent gap between waqf potential and realization driven by governance, institutional, and behavioral constraints.
2. Significant positive contributions of productive waqf to MSME development and regional employment, albeit with spatial inequality.
3. Measurable improvements in welfare indicators, particularly income, education, and health, aligned with Maqasid Shariah objectives.

These results confirm that productive waqf has strong socio-economic potential but requires institutional strengthening and policy integration to achieve optimal impact.

The findings of this study demonstrate that productive waqf in Indonesia operates at the intersection of Islamic fiscal policy, socio-economic development, and maqasid al-shariah principles. The empirical and literature-synthesized results indicate that waqf is not merely a charitable instrument but a structural mechanism for wealth redistribution, poverty alleviation, and inclusive economic development. However, its effectiveness is conditioned by governance quality, institutional capacity, and the degree of integration into national development planning.

The alignment between waqf implementation and Islamic fiscal policy objectives is evident in the way waqf contributes to maqasid al-shariah, particularly in preserving wealth, enhancing welfare, and ensuring equitable access to essential services. The literature consistently emphasizes that productive waqf, including cash waqf and Cash Waqf Linked Sukuk (CWLS), functions as an asset-backed financing mechanism that sustains public goods such as education, healthcare, and infrastructure (Widiastuti et al., 2022; Dirie et al., 2023). These outcomes directly correspond to the maqasid principle of safeguarding public welfare (*maslahah*) and reducing socio-economic disparities. In this regard, waqf serves as a fiscal complement to state budgeting systems, reinforcing the redistributive function of Islamic fiscal policy. The findings further suggest that integrating waqf into broader development frameworks aligned with the Sustainable Development Goals strengthens its normative and practical legitimacy as a tool for inclusive development.

Despite this strong normative alignment, the study identifies a persistent gap between waqf potential and realization in Indonesia. Institutional data from the Indonesian Waqf Board ("organization", "Badan Wakaf Indonesia") indicates that realized waqf contributions remain significantly below estimated national potential. This gap is primarily driven by governance-related constraints, including limited *nazhir* capacity, weak accountability mechanisms, and inadequate professional management systems. The literature consistently supports this explanation, highlighting that institutional quality is a decisive factor in determining whether waqf assets remain idle or are transformed into productive economic resources (Mahmudi & Muhammad, 2022; Munandar & Fahrurrozi, 2024). Furthermore, deficiencies in data infrastructure and reporting transparency hinder efficient mobilization and allocation of waqf funds, reinforcing inefficiencies in the system.

Another critical factor influencing waqf effectiveness is the degree of public participation and financial literacy. The adoption of modern waqf instruments such as cash waqf and digital waqf platforms remains uneven, limiting the mobilization of available resources. Behavioral

constraints, including limited awareness and trust in waqf institutions, further reduce participation rates. These findings are consistent with previous studies emphasizing the importance of technological integration and financial education in expanding waqf outreach and efficiency (Devani & Hasanah, 2023).

The impact of waqf on MSME development and regional economic growth further illustrates its developmental potential, while simultaneously revealing structural inequalities in its distribution. Productive waqf contributes to MSME financing through capital provision, microfinance schemes, and hybrid instruments such as waqf-linked sukuk. These mechanisms reduce barriers to entry for small enterprises and enhance economic resilience. However, the benefits are unevenly distributed across regions. More developed areas, particularly those with stronger institutional ecosystems and higher *nazhir* capacity, tend to capture greater waqf benefits compared to less developed regions. This spatial disparity reflects broader structural inequalities in Indonesia's development landscape and underscores the need for more targeted and equitable distribution mechanisms (Latif et al., 2022; Syamsuri & Moka, 2021).

Waqf also plays a significant role in employment creation through its support for MSME expansion, infrastructure development, and human capital formation. The literature indicates that productive waqf stimulates job creation indirectly by enabling entrepreneurship and business growth. However, while positive employment effects are consistently observed, the magnitude of these effects varies depending on governance quality and institutional efficiency. Regions with well-developed waqf ecosystems tend to experience stronger employment outcomes, suggesting that institutional capacity is a key mediating factor in translating waqf resources into labor market benefits (Sayuti et al., 2023).

In terms of welfare outcomes, the findings indicate that waqf contributes positively to income growth, education access, and healthcare provision. These improvements are consistent with the multidimensional nature of welfare as conceptualized in maqasid al-shariah, which emphasizes not only economic well-being but also human capital development and social justice. Income improvements among beneficiaries are primarily driven by access to productive capital and microenterprise opportunities, while education and health gains are facilitated through waqf-funded infrastructure such as schools, scholarships, clinics, and hospitals (Meidina & Moka, 2023; Sulistiani et al., 2020).

Nevertheless, attribution challenges remain, as isolating the specific impact of waqf from broader socio-economic programs is methodologically complex. This underscores the importance of robust econometric approaches such as panel data analysis and SEM-PLS in future research.

The discussion also highlights that regional inequality significantly influences the effectiveness of Islamic philanthropic outcomes. Unequal distribution of waqf assets and institutional capacity across regions leads to heterogeneous impacts, with lagging regions experiencing lower benefits from waqf programs. This finding aligns with the broader literature on Islamic social finance, which emphasizes the importance of equitable targeting and data-driven allocation strategies. Without such mechanisms, waqf risks reinforcing existing disparities rather than mitigating them. Therefore, improving data integration, governance coordination, and regional targeting is essential for ensuring inclusive outcomes (Putra et al., 2023).

Overall, the findings suggest that while productive waqf has strong theoretical and empirical potential to reduce inequality and enhance welfare, its actual impact is

constrained by institutional and governance limitations. The integration of waqf into national development planning, combined with digital transformation and professionalization of nazhirs, emerges as a critical policy direction. Strengthening accountability, standardizing Islamic financial reporting, and enhancing inter-institutional coordination are necessary steps to unlock the full potential of waqf as a tool for socio-economic development. In conclusion, the effectiveness of waqf in Indonesia is not determined solely by its financial potential, but by the strength of its governance architecture and its alignment with maqasid al-shariah-based development objectives.

Conclusion

This study examines the role of productive waqf within the broader framework of Islamic fiscal policy and its contribution to reducing social inequality in Indonesia. The findings consistently indicate that waqf functions as a strategic Islamic social finance instrument that extends beyond charitable redistribution to become a structural mechanism for socio-economic development. By linking asset accumulation with productive economic activities, waqf has the potential to support MSME growth, expand employment opportunities, and improve access to essential services such as education and healthcare.

The empirical synthesis shows that Indonesia possesses substantial waqf potential; however, realization remains significantly below its estimated capacity. This gap is primarily driven by institutional and governance-related constraints, including limited nazhir capacity, weak transparency systems, fragmented regulatory coordination, and insufficient digital integration. These structural limitations prevent waqf assets from being fully transformed into productive economic resources. As a result, the developmental impact of waqf remains uneven and under-optimized despite its strong theoretical potential.

At the socio-economic level, productive waqf demonstrates a consistent positive influence on community welfare indicators. Income levels among beneficiaries tend to improve through access to microenterprise financing and productive capital. In addition, waqf-funded initiatives contribute to improved access to education and healthcare services, thereby strengthening human capital development. The results further indicate that waqf supports MSME expansion and

job creation, although the magnitude of these effects varies across regions due to disparities in institutional capacity and asset distribution.

From a theoretical perspective, the findings strongly align with maqasid al-shariah, particularly the objectives of preserving wealth, life, and intellect. Waqf contributes to wealth redistribution and social justice while simultaneously enabling sustainable economic empowerment. This confirms its relevance within Islamic fiscal policy as a complementary instrument to state-led fiscal mechanisms, particularly in addressing inequality and supporting inclusive development.

The study also highlights that regional inequality significantly shapes the effectiveness of waqf implementation. Regions with stronger institutional ecosystems tend to benefit more from waqf programs, while less developed regions remain relatively underserved. This uneven distribution underscores the importance of strengthening governance systems and ensuring equitable targeting mechanisms in Islamic social finance policies.

The main contribution of this research lies in its integrated perspective, which connects waqf potential, institutional governance, MSME development, and welfare outcomes within a unified analytical framework grounded in Islamic fiscal policy and maqasid al-shariah. It demonstrates that waqf effectiveness is not solely determined by financial potential, but by institutional quality, policy integration, and system-wide coordination.

Policy implications of this study suggest the need for comprehensive reforms, including professionalization of nazhir institutions, enhancement of digital waqf platforms, standardization of Islamic financial reporting systems, and stronger integration between waqf governance and national development planning. Strengthening these areas will be critical to unlocking the full socio-economic potential of waqf in Indonesia.

For future research, more rigorous empirical approaches using long-term panel data, causal inference models, and micro-level household datasets are recommended. Further studies should also explore comparative analysis across regions and countries to better understand how institutional differences shape waqf effectiveness.

In conclusion, productive waqf represents a powerful yet underutilized instrument in Indonesia's Islamic fiscal system. When supported by strong governance and aligned with maqasid al-shariah principles, it has significant potential to reduce inequality and enhance inclusive socio-economic development.

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