

Review Article

# Reconstructing the Role of Waqf in Indonesia's Islamic Financial Ecosystem: Institutional and Regulatory Analysis

Irma Suryani Lubis <sup>1\*</sup>, Muslim Marpaung <sup>2</sup>

1 Politeknik Negeri Medan, Indonesia  
e-mail : [irmasuryani@polmed.ac.id](mailto:irmasuryani@polmed.ac.id)

2 Politeknik Negeri Medan, Indonesia  
e-mail : [irmasuryani@polmed.ac.id](mailto:irmasuryani@polmed.ac.id)

\* Corresponding Author : Irma Suryani Lubis

**Abstract:** Waqf has long been a pillar of Islamic philanthropy and socio-economic development, yet its potential remains underutilized in Indonesia's modern Islamic financial ecosystem. This article examines how waqf can be repositioned and optimized within Indonesia's Islamic finance, focusing on institutional roles and regulatory frameworks. Adopting a qualitative approach that combines theoretical-conceptual analysis with case studies, we review Islamic legal principles, national laws, and recent innovations. We analyze three emblematic cases – L-Kaf Sidogiri (a pesantren-based waqf institution), Dompot Dhuafa (a prominent Islamic philanthropic foundation), and the Cash Waqf-Linked Sukuk (CWLS) – to illustrate successes and challenges in waqf management. Our findings reveal that while waqf is recognized as a key instrument in poverty alleviation and social welfare financing, its impact is limited by fragmented institutions, gaps in regulation, low public awareness, and governance weaknesses. However, successful models of productive waqf and financial innovation demonstrate the feasibility of an integrated waqf ecosystem. We discuss strategies to strengthen legal frameworks, enhance institutional capacity, and synergize waqf with Islamic banking, capital markets, and technology. The article offers policy recommendations toward “mainstreaming” waqf in Indonesia's Islamic financial sector, thereby unlocking waqf's potential for sustainable development.

**Keywords:** national law, pillars of philanthropy, technology

## 1. Introduction

Waqf (Islamic endowment) has historically played a vital role in Muslim societies by financing education, healthcare, and social welfare. In classical practice, waqf involved donating immovable assets (land or buildings) whose yields fund charitable services perpetually. Modern Islamic economies increasingly view waqf as part of the broader Islamic social finance toolkit alongside zakat (alms), infaq (charity), and sadaqah (donations) (Nasution et. al., 2021)). In Indonesia, a Muslim-majority nation, waqf is recognized not only as a religious deed but also as a potential driver of socio-economic development. The integration of waqf into the Islamic financial ecosystem – which includes Islamic banking, capital markets, and takaful (Islamic insurance) – could mobilize substantial resources for public welfare and help reduce poverty and inequality.

Despite its promise, the contribution of waqf in Indonesia's economy remains far below its potential. Government estimates indicate enormous untapped assets: as of 2021, over 440,000 waqf land plots (totaling tens of thousands of hectares) exist nationwide, and the annual cash waqf potential is around IDR 180–188 trillion (~USD 12 billion) (Presiden

Received: 25 March , 2025  
Revised: 25 March , 025  
Accepted: 04 April, 2025  
Onlien Available: 08 April , 2025  
Curr. Ver.: 08 April , 2025



Copyright: © 2025 by the authors.  
Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY SA) license (<https://creativecommons.org/licenses/by-sa/4.0/>)

Jokowi Resmikan Gerakan Nasional Wakaf Uang dan Brand Ekonomi Syariah) (Ghozali & Annas (2024)0). However, actual waqf collections and investments are only a fraction of this. For instance, by early 2022, cumulative cash waqf managed through Islamic banks reached about IDR 1.4 trillion (Ghozali & Annas (2024)0) – less than 1% of the potential. Another study found that in 2020 the cash waqf potential was IDR 188 trillion, yet only IDR 328 billion had been collected in waqf accounts, reflecting low public participation ((Law No.41/2004, 2004)). Most existing waqf properties in Indonesia are traditional donations (e.g. land for mosques or schools) that generate limited income. The underutilization of waqf assets is often attributed to a lack of innovation in management and poor governance structures (Nasution et. al., 2021)). Waqf has not yet been optimally integrated into Indonesia's Islamic financial markets or development programs.

The Indonesian government and Islamic economic authorities have begun to address this gap. In 2021, President Joko Widodo launched the Gerakan Nasional Wakaf Uang (National Movement for Cash Waqf) to raise awareness and trust in waqf as a social finance instrument. This high-profile initiative, supported by the Vice President (a leading Islamic scholar), Bank Indonesia, and the Financial Services Authority (OJK), signaled a “new era” of waqf development emphasizing digital transformation and ecosystem strengthening. The movement underscores that waqf is no longer to be seen as merely pious charity, but as a financing source for public welfare and an integral part of the Sharia economy. Indeed, the most strategic Islamic social finance instruments – Zakat, Infaq, Sadaqah, and Waqf (ZISWAF) – are expected to work in concert to promote shared prosperity and reduce income inequality. Waqf, in particular, holds significant promise for supporting long-term social infrastructure and sustainable development in Indonesia (Nasution et. al., 2021).

At the same time, two fundamental issues impede the optimization of waqf nationally: institutional challenges and market structure limitations (Nasution et. al., 2021). On the institutional side, waqf management in Indonesia involves multiple stakeholders (government bodies, the Indonesian Waqf Board, Islamic banks, philanthropic organizations, local trustees) whose roles are sometimes overlapping or under-coordinated. On the market side, waqf is not yet fully integrated into Islamic financial products and investment channels. There is also a general lack of public awareness and confidence in waqf institutions (Nasution et. al., 2021). Many Indonesians remain unfamiliar with modern waqf mechanisms (such as cash waqf, waqf-linked sukuk, or waqf shares), or distrust that their endowments will be managed transparently and professionally (Nasution et. al., 2021). These challenges contribute to the weak position of waqf in the current financial system. As noted by recent research, without structured policies and institutional support, waqf's role in economic development remains marginal (Nasution et. al., 2021).

Given this background, our study aims to “reconstruct” the role of waqf in Indonesia's Islamic financial ecosystem by analyzing how laws and institutions shape waqf practices, and how can be improved.

## 2. Literature Review

Past studies on waqf in Indonesia and other Muslim contexts highlight both its tremendous potential and the hurdles to its development. Waqf is widely regarded as a powerful instrument for social welfare and economic empowerment in Islamic economics

(Nasution et. al., 2021). It creates a sustainable source of funding for charitable causes by preserving principal assets and using only the generated income (in line with the Prophetic maxim “preserve the principal and donate the yields”). Empirical evidence from various countries shows waqf funds supporting education, healthcare, poverty alleviation, and community development programs (Law No.41/2004, 2004). For example, research has documented how countries like Turkey, Malaysia, and Bangladesh have revitalized waqf through productive investments and integration with Islamic banking (wakaf 7) (wakaf 7).

However, the literature also underscores that many waqf assets remain idle or underproductive due to management and regulatory issues. Governance challenges are a recurring theme. Observe that the management and administration of waqf institutions can often be poor, undermining their effectiveness. Note that large portions of waqf land in various countries (including Indonesia) lie unutilized or disputed, which attribute to inadequate management and insufficient funds to develop those assets. In Indonesia, it is common to find waqf lands with mosques or schools that struggle to cover maintenance costs, reflecting missed opportunities to invest waqf assets productively (Fauzi, 2022). Proper management and development of waqf properties are essential to ensure that the waqf sector can significantly contribute to social welfare. Several scholars argue that implementing modern management practices and professional standards for nazhir (waqf managers) is critical to improve outcomes (Ihsan & Ibrahim, 2011). In this vein, Indonesia’s move to establish national standards like the Waqf Core Principles (WCP) in 2018 is a positive step toward enhancing governance and accountability in the waqf sector.

Another key issue identified in the literature is legal and regulatory constraints. Yusoff et. al. (2021) outline three main challenges to waqf management: (1) restrictive or unclear regulatory settings, (2) a narrow mindset of stakeholders (clinging to traditional concepts of waqf), and (3) lack of public awareness (Waqf Core Principles Implementation Index in Dompot Dhuafa Foundation in 2022). Rigid regulations or bureaucracy can impede innovative uses of waqf. For instance, in some jurisdictions, outdated laws limited waqf to immovable assets, preventing cash endowments until reforms were made. Indonesia addressed this by enacting new waqf laws in 2004 that recognize movable assets (including cash) as waqf, but the implementation of these provisions has been gradual ((Law No.41/2004, 2004)). Studies have also critiqued the fragmentation of authority in waqf governance. Until the mid-2000s, waqf in Indonesia was managed in a piecemeal fashion, primarily overseen by local religious officials without a unified national strategy. The establishment of the Indonesian Waqf Board (BWI) in 2007 aimed to centralize and strengthen waqf oversight, yet some analysts argue that BWI’s legal authority remains weak or underutilized (Hasanah, 2020). A critical review of Law No. 41/2004 by legal scholars points out ambiguities in the division of roles between BWI and the Ministry of Religious Affairs, which may lead to coordination problems in policy implementation.

The lack of public awareness and trust is frequently cited as a major impediment to waqf development. Many Muslims are familiar with the concept of donating land for a mosque or cemetery (traditional waqf) but are less aware of contemporary waqf instruments like cash waqf certificates, waqf shares, or sukuk linked to waqf. Nasution et al. (2021) found that public knowledge about waqf-based investments (e.g., waqf shares, waqf sukuk) in Indonesia is low, and there is a lack of literature and socialization on how these work (Nasution et. al., 2021)).

Moreover, a survey of stakeholders indicated that limited trust in waqf institutions discourages participation in innovative waqf programs (Nasution et. al., 2021)). Concerns over transparency, fear of fund mismanagement, and the absence of visible impact have made potential donors (wakif) hesitant to contribute beyond conventional charitable giving. To overcome this, researchers emphasize the need for increased transparency, reporting, and professional management in waqf institutions (Nasution et. al., 2021). The success of organizations like Dompot Dhuafa (which regularly publishes audited reports of Zakat and waqf utilization) supports the idea that demonstrating good governance can build public confidence. In fact, an implementation study of the Waqf Core Principles in Dompot Dhuafa showed that adhering to best practices (transparency, accountability, sharia compliance) correlates with greater stakeholder trust and more impactful waqf programs.

Lastly, the literature discusses financial innovation and integration of waqf into the Islamic finance industry. Integrating waqf with modern finance can amplify its impact through sustainable investment. One emerging model is the Cash Waqf-Linked Sukuk (CWLS), pioneered by Indonesia in 2020, which channels waqf funds into government sukuk instruments. Early analyses indicate that Indonesia successfully formulated both corporate and retail CWLS instruments by coordinating across six state agencies (including Ministry of Finance, BWI, Bank Indonesia, OJK) and partnering with socio-religious organizations as nazhir. These innovative instruments demonstrate that waqf can be blended with capital market products to support public projects, while still preserving the religious integrity of endowments. Other studies highlight the concept of waqf shares or corporate waqf, where shares of companies or profits are endowed. For example, Malaysia's corporate waqf models have been referenced as a blueprint wherein corporations dedicate a portion of equity or revenue to waqf, thus institutionalizing philanthropy within business structures. In Indonesia, DSN-MUI issued a fatwa in 2020 clarifying that shares in sharia-compliant companies can be donated as waqf, paving the way for capital-market based waqf instruments (MUI, 2020). Nonetheless, academic discussions caution that a supportive regulatory environment and robust risk management are needed when blending waqf with financial markets (Sulaiman et al., 2021) to ensure that the waqf principal remains secure and the objectives of perpetuity and charitable benefit are upheld.

In summary, existing research establishes that waqf in Indonesia holds great promise but faces multifaceted challenges. Key gaps identified include: governance and capacity weaknesses in waqf institutions, regulatory misalignments, low public literacy on waqf, and limited integration with Islamic financial instruments. Our study builds on this literature by providing an updated analysis of Indonesia's waqf framework (considering recent developments up to 2024) and delving into specific case studies that exemplify both the hurdles and potential pathways for progress. By doing so, we aim to contribute practical insights toward enhancing waqf's role in the Islamic financial ecosystem.

### **3. Literature Review**

This research adopts a qualitative, exploratory approach grounded in legal and institutional analysis, combined with a case study method. We employ a theoretical-conceptual analysis to examine the frameworks that govern waqf in Indonesia, and a case-based approach to illustrate how these frameworks operate in practice and where improvements are needed.

The study is primarily descriptive-analytical, focusing on understanding “how” and “why” waqf is managed as it is, and “what” changes could strengthen its role.

### **Data Collection**

We relied on documentary sources for data. Key sources include Islamic legal texts and fatwas (to explain the shariah concepts of waqf), Indonesian laws and regulations (to outline the formal legal framework), academic journal articles (for insights from prior studies), government reports and statistics (for factual data on waqf assets and implementation), and case-specific documentation (such as institutional reports from waqf organizations and project descriptions for waqf-linked sukuk). We reviewed relevant fatwas issued by the Indonesian Ulema Council (MUI), particularly the 2002 fatwa permitting cash waqf, as well as any guidelines from the National Sharia Board (DSN-MUI) on new waqf instruments. The national law on waqf (Law No. 41/2004) and its implementing regulation (Gov. Regulation No. 42/2006) were analyzed in detail to extract provisions on permissible waqf assets, the role of BWI, nazhir requirements, and oversight mechanisms. We gathered recent statistics from the Ministry of Religious Affairs (MoRA) and BWI on waqf land and cash waqf, including figures mentioned in official speeches and press releases (Ghozali & Annas (2024)0).

For the case studies, we selected three cases that cover a spectrum of waqf innovations and stakeholders: (1) L-Kaf Sidogiri, a waqf institution operating at a grassroots/community level (affiliated with an Islamic boarding school); (2) Dompot Dhuafa, a large Islamic philanthropic institution with national reach, managing waqf alongside other Islamic social funds; and (3) the Cash Waqf-Linked Sukuk (CWLS) initiative, representing a government-led financial innovation integrating waqf with the formal capital market. We chose these cases to capture diversity: L-Kaf represents a pesantren-based, locally driven model; Dompot Dhuafa illustrates the role of NGOs and the integration of waqf with professional charity management (ZISWAF); CWLS provides an example of state intervention and financial engineering to utilize waqf. Data for each case were collected from multiple sources – academic case studies, organizational reports, news articles, and official statements. For instance, for L-Kaf Sidogiri we used a field study by Fauzi (2022) that documents L-Kaf’s establishment, operations, and compliance with Law 41/2004 (Fauzi (2022)). For Dompot Dhuafa, we reviewed assessments of its waqf management (including a 2024 study on its Waqf Core Principles compliance) (Waqf Core Principles Implementation Index in Dompot Dhuafa Foundation in 2022) (Waqf Core Principles Implementation Index in Dompot Dhuafa Foundation in 2022) and information on its flagship waqf programs. For the CWLS, we examined policy papers and reports from BWI and the Ministry of Finance, as well as academic analyses on the structure and outcome of the first waqf sukuk issuance.

### **Data Analysis**

The analysis proceeded in three stages. First, we conducted a content analysis of legal and policy documents to map out the formal framework: defining what waqf is under Indonesian law, who the actors are, and what regulations guide waqf management. We paid special attention to identifying gaps or ambiguities in the regulatory framework (for example, any mismatch between shariah prescriptions and positive law, or lack of regulation for new digital waqf platforms). Second, we performed a comparative institutional analysis using the case studies. Each case was analyzed on dimensions such as governance structure, compliance with regulations, innovation in practice, and outcomes/impact. We then compared these cases to

extract common challenges and best practices. For example, we compared how L-Kaf and Dompot Dhuafa handle fund management, stakeholder engagement, and use of waqf for productive purposes, noting similarities and differences in success factors. Third, we synthesized the findings to formulate recommendations. This involved an interpretive analysis where we linked the empirical observations from cases back to the theoretical and regulatory context. We used concepts from Islamic finance and public policy as a lens to evaluate whether current waqf practices meet their intended socio-economic objectives. The combination of sources and methods enhances the robustness of our conclusions through triangulation: legal texts provide normative intent, literature and reports provide documented reality, and case studies provide contextual nuance.

### **Scope and Limitations**

This study is focused on the Indonesian context from approximately 2004 (when the waqf law was enacted) to 2024. It does not include primary survey data or interviews; as a result, some findings rely on secondary interpretations which we cross-verify among multiple sources. The case studies, while illustrative, are not exhaustive – many other waqf initiatives exist in Indonesia, but we selected a few representative ones. Despite these limitations, the chosen methodology is suitable for an in-depth institutional and legal analysis, and it aligns with approaches used in socio-legal research on Islamic finance. By qualitatively examining both rules (“law in the books”) and practice (“law in action”) through cases, we aim to provide a comprehensive understanding of how waqf can be strengthened within Indonesia’s Islamic financial ecosystem.

### **Theoretical and Legal Framework of Waqf in Indonesia**

#### **Concept of Waqf in Islamic Law**

Waqf (plural awqaf) is an Arabic term that literally means “to stop” or “to hold”. In shariah, it refers to holding a certain asset and dedicating its usufruct (benefit) in perpetuity for a charitable or religious purpose. Once an asset is declared as waqf by a donor (wakif), it becomes inalienable – the ownership is transferred to Allah (God) and the asset can no longer be sold, inherited, or given away. Only the benefits (such as rent, crop yield, or revenue) can be used for the specified beneficiaries (mauquf ‘alaih). This concept ensures a lasting benefit to the community, as the waqf asset continuously generates rewards for the donor and services for society. Classical Islamic jurisprudence (fiqh) outlines several conditions for a valid waqf: the donor must be the rightful owner and of sound mind, the asset must be durable and yield benefit, the purpose must be lawful and charitable, and the declaration must be permanent. Traditionally, land and buildings were common waqf assets – e.g., land for mosques, schools, wells, or markets – in line with the idea of perpetuity. The Prophet Muhammad (peace be upon him) encouraged waqf; a famous hadith narrates that Umar ibn al-Khattab endowed a valuable land in Khaybar as waqf for the poor, with the instruction “retain the property, and give away its fruits”. Over the centuries, waqf became a cornerstone of civil society in the Muslim world, financing universities (Al-Azhar in Egypt was historically waqf-funded), hospitals, and public works.

In modern interpretation, scholars have expanded waqf to include movable assets and even intangible assets, as long as they can yield recurring benefits. This includes cash (waqf al-nuqud or cash waqf), which historically was a matter of debate among classical jurists. The principle of istihsan (juristic preference for public interest) has been applied to justify cash

waqf in contemporary times, considering the need for flexible endowment instruments. Cash waqf means donating a sum of money, which is then invested or lent out, and the profits are used for charitable purposes while the principal is preserved. Likewise, waqf today can extend to assets like shares, sukuk, or even intellectual property rights, provided that the endowment's integrity and permanence are maintained. The overarching Maqasid al-Shariah (objectives of Islamic law) achieved through waqf include preservation of wealth (hifdz al-mal) by circulating private wealth for continuous public benefit, and promoting social welfare and solidarity (falah). A recent study affirmed that waqf via modern platforms (e.g., crowdfunding) still aligns with these maqasid, fulfilling the obligation to protect and develop wealth for collective prosperity.

### **Indonesia's Legal Framework**

In Indonesia, waqf is governed by a combination of Islamic law principles and national legislation. The pivotal law is Law No. 41 of 2004 on Waqf, which for the first time comprehensively regulated waqf in the national legal system. This law was a response to the need to modernize waqf governance; previously, waqf matters were loosely addressed in Government Regulation No. 28 of 1977. Law 41/2004 expanded the scope of waqf beyond immovable property. It explicitly recognizes movable objects as waqf assets, including money, precious metals, securities, vehicles, intellectual property, rental rights, etc., as long as they are owned and legally acquired by the wakif (Ghozali & Annas (2024)). This recognition of cash waqf (wakaf uang) was a landmark shift, aligning Indonesian law with fatwas from Islamic scholars. In fact, two years prior, the Indonesian Council of Ulema (MUI) had issued a fatwa (Fatwa MUI No. 2/2002) declaring cash waqf permissible, with the stipulation that the principal value must be safeguarded and only its yield used for beneficiaries (Law No.41/2004, 2004). Law 41/2004 codified this, thereby providing a legal basis for cash waqf and its management through formal financial institutions. Under Law 41/2004, several important legal provisions were set forth:

- **Purpose of Waqf:** Waqf assets in Indonesia can be allocated for religious facilities, education, healthcare, assistance to the poor, advancement of public welfare, and other general charitable purposes not contrary to Sharia. The law emphasizes that waqf is meant to serve public interests (ibadah sosial) and improve general welfare, which effectively disallows the traditional family waqf (waqf ahli) that was primarily for descendants. Indonesia thus focuses on waqf khairi (charitable waqf).
- **Nadzir (Waqf Managers):** The law defines nazhir as the party entrusted to manage waqf assets and mandates that every waqf must have an appointed nazhir. Nazhir can be an individual, an organization, or a legal entity. For individuals, the law requires that the nazhir be an Indonesian citizen, Muslim, adult, of sound mind, trustworthy, and capable of managing the assets (Senjiati et. al., 2021). Organizations or legal entities serving as nazhir must meet criteria of sharia-compliance and competence as further detailed by regulation. A critical stipulation in Law 41/2004 is that nazhir are entitled to a maximum of 10% of the yields or benefits of the waqf asset as remuneration for their management efforts (Senjiati et. al., 2021). This cap is meant to prevent misappropriation; at least 90% of waqf benefits should go to the intended social purposes. The law thus balances

incentivizing nazhir (so have resources for administration) with protecting the beneficiaries' rights. In practice, this has needed enforcement – a field study found cases where individual nazhirs were taking 100% of profits from a waqf business, violating the law and Islamic principles (Senjiati et. al., 2021), indicating the need for supervision.

- Indonesian Waqf Board (BWI): Law 41/2004 called for the establishment of a national waqf body. Consequently, the Badan Wakaf Indonesia (BWI) was formed in 2007 as an independent state institution (Government Issued First Cash Waqf-Linked Sukuk in 2020 - KarimSyah Law Firm). BWI's mandate includes overseeing and enhancing waqf management across the country. Its tasks, as enumerated in the law and Government Regulation No. 42/2006 (implementing the Waqf Law), are: to accredit or register nazhir, to develop guidelines and give training for nazhir, to manage and develop certain waqf assets at a national level, to supervise nadzir's performance, and to mediate disputes related to waqf. BWI can also directly act as nazhir for large or strategic waqf assets if needed. Importantly, BWI is empowered to coordinate with government agencies, Islamic organizations, and financial authorities to advance waqf. For example, BWI has been instrumental in partnering with Bank Indonesia and the Ministry of Finance for initiatives like the waqf-linked sukuk. Despite being an independent body, in practice BWI works closely with the Ministry of Religious Affairs, which historically managed waqf data (e.g., land waqf registration through local Religious Affairs Offices). Law 41/2004 gave BWI legal personality and authority, but as noted earlier, ensuring BWI has sufficient capacity and clear jurisdiction vis-à-vis other institutions is an ongoing process.
- Waqf Pledge and Registration: The law outlines procedures for endowing assets. A waqf pledge (ikrār waqf) must be declared by the wakif before an official Waqf Pledge Deed Officer (Pejabat Pembuat Akta Ikrar Wakaf, usually a local office of MoRA or Islamic notary). The deed of waqf is then registered. For land waqf, the National Land Agency (BPN) issues a waqf certificate to change the land status to waqf. For movable assets like cash, Law 41/2004 introduced the concept of Islamic financial institutions as waqf recipients. This means certain Sharia-compliant banks are appointed to receive cash waqf deposits from donors, formalize the waqf, and then channel the funds to the chosen nazhir or waqf project. A 2010 regulation designated several Islamic banks for this role, and as of a few years ago, 12 Islamic banks (including major ones like Bank Syariah Indonesia, Bank Muamalat, etc.) have served as official cash waqf collection agents ((Law No.41/2004, 2004)). This integration with banks helps ensure waqf money is recorded and managed transparently.
- Management and Investment: Law 41/2004 allows waqf assets to be developed and invested as long as their value is preserved and are not used for haram (forbidden) purposes. For instance, a waqf land can be developed into a commercial building if the



rental income then funds the waqf's charitable objective. Cash waqf can be placed in Sharia-compliant investments (mudharabah deposits, sukuk, etc.), with all returns (net of the small nazhir fee) to be spent on beneficiaries. The law encourages productive waqf, stating that waqf assets should ideally be managed productively to yield benefits for socio-economic welfare. However, it also emphasizes that the original waqf property (or principal) must not diminish. Any change in use or exchange (istibdal) of waqf assets requires strict conditions and usually permission from a Sharia court or BWI.

Supporting the primary law, Government Regulation No. 42 of 2006 provides technical details, such as the organizational structure of BWI, procedures for nazhir certification, reporting requirements, and sanction mechanisms for misuse of waqf. Additionally, the Ministry of Religious Affairs and BWI have issued various guidelines. For example, BWI has published Waqf Management Guidelines and collaborated on the Waqf Core Principles (a set of 11 principles akin to Basel banking standards, but for waqf, launched in 2018) (Waqf Core Principles Implementation Index in Dompot Dhuafa Foundation in 2022) to improve governance. There are also fatwas from the National Sharia Board (DSN-MUI) that complement the legal framework, such as the fatwa on Cash Waqf (2002) and fatwa on Sukuk as waqf investment instruments (DSN-MUI No. 137/DSN-MUI/IX/2020). These fatwas ensure that new waqf-based products are compliant with Islamic principles, which then informs regulations by OJK or Ministry of Finance. For example, before the first CWLS was issued, DSN-MUI had to opine on the permissibility of the sukuk structure for waqf – such coordination between shariah authorities and regulators is part of Indonesia's institutional framework for Islamic finance.

In summary, Indonesia's waqf legal framework is robust on paper: it modernizes waqf by allowing cash and other assets, establishes a dedicated national body (BWI) for development and oversight, integrates Islamic financial institutions into waqf fund management, and sets governance standards for nazhir. This framework is aligned with Islamic principles (the law explicitly states waqf must accord with shariah (Regulasi - Badan Wakaf Indonesia | BWI.go.id)) and aims to enable waqf to flourish as a social finance instrument. Yet, as subsequent sections will discuss, implementation challenges remain – turning these laws and regulations into effective practice requires strengthening institutions and closing regulatory gaps.

### **Institutional Landscape of Waqf in Indonesia**

The waqf ecosystem in Indonesia involves a network of institutions each with distinct roles, from regulation and supervision to on-the-ground management of waqf assets. Understanding this institutional landscape is crucial to see how waqf functions and where coordination needs improvement (Kamim & Hakim, 2023).

- a) Indonesian Waqf Board (BWI): At the apex is the BWI, established by Law 41/2004 as an independent national entity. BWI can be seen as the regulator and central coordinator of waqf, although it is not a government ministry. Its leadership board is composed of Islamic scholars, professionals, and community leaders appointed by the government for certain terms. BWI's mandate is to develop and promote waqf nationally so that the economic potential of waqf assets is realized for public welfare (BWI, 2021). In practice,

BWI registers nazhir (both individuals and institutions) and maintains a database of registered waqf assets. When a new waqf is pledged, the details should be reported to BWI. BWI also issues regulations or guidelines; for example, it has published the Waqf Core Principles in collaboration with Bank Indonesia and IRTI-IsDB to set best practices (Tanjung et.al., 2024). BWI often acts as a facilitator, bringing together multiple stakeholders. The Vice President of Indonesia (Ma'ruf Amin) noted that BWI “cannot work alone” and must synergize with related parties to strengthen the waqf ecosystem. Indeed, BWI has partnered with ministries (Religious Affairs, Finance), Bank Indonesia, OJK, and philanthropic organizations on various initiatives. A notable function of BWI is empowering nazhir – it conducts training, certification exams for nazhir, and has even started incubators to help waqf institutions create productive business plans. BWI has provincial and regional representatives to extend its reach across Indonesia’s vast geography. However, BWI faces resource and capacity constraints given the magnitude of waqf assets nationwide. Strengthening BWI’s institutional capacity and authority (e.g., giving it enforcement power to ensure compliance by nazhir) is part of the policy discussion for waqf reform.

- b) Ministry of Religious Affairs (MoRA): Historically, MoRA (through its Directorate of Zakat and Waqf, now Directorate of Waqf Empowerment) was the main government body handling waqf. Even after BWI’s formation, MoRA retains significant roles especially in administrative and legal processes. Local Religious Affairs Offices at sub-district level (KUA, Kantor Urusan Agama) are typically where waqf pledges for land are formalized in front of the Waqf Pledge Deed Official (PPAIW), usually the head of KUA. ensure the waqf is recorded properly and then coordinate with the Land Office for certificates. MoRA thus is a frontline institution for land waqf documentation and for community socialization about waqf (alongside its officials’ duties for marriage registration and religious guidance). MoRA also sometimes provides guidance to nazhir and mediates disputes at local levels. In the national context, MoRA works closely with BWI – for example, MoRA sits on the Waqf National Coordination Team and has collaborated with BWI in campaigns like the National Waqf Movement. We can consider MoRA as the government’s arm ensuring waqf aligns with national religious policies and as a link between grassroots waqf activities and national oversight.
- c) Ministry of Finance and Financial Regulators: As waqf becomes interlinked with finance, the Ministry of Finance (MoF) and regulators like Bank Indonesia (BI) and OJK play supporting roles. MoF became directly involved with waqf through the issuance of Cash Waqf-Linked Sukuk – it designs and issues the sovereign sukuk that utilizes waqf funds. It also oversees any tax incentives or fiscal policies related to waqf (for instance, currently donations including waqf may have deductibility in corporate tax, though not as developed as zakat). Bank Indonesia, the central bank, has championed Islamic social

finance as part of its Sharia economic blueprint. BI supported the creation of Waqf Core Principles and has funded pilot projects and research on waqf. Meanwhile, OJK (Otoritas Jasa Keuangan) regulates Islamic banks (LKS-PWU) that handle cash waqf. OJK issued operational guidelines to banks for accepting waqf deposits and ensuring those are forwarded to nazhir or invested appropriately. OJK and BI have also encouraged banks to create waqf-based products (like waqf savings accounts or micro-endowment schemes). Additionally, in recent years, financial technology (fintech) companies focusing on Islamic charitable crowdfunding have emerged, some facilitating waqf collection. OJK's fintech regulatory sandbox monitors these to ensure consumer protection. Overall, while MoF, BI, and OJK are not waqf institutions per se, their involvement underscores that waqf is increasingly seen as part of the formal financial system.

- d) Nazhir and Waqf Institutions: The backbone of waqf implementation are the nazhir – the individuals or organizations that actually manage waqf assets on the ground. In Indonesia, nazhir can be broadly categorized into: individual nazhir, institutional nazhir (organizations), and Islamic financial institution nazhir. Individual nazhirs are often community figures or religious leaders entrusted with a local waqf (for example, a villager donates land for a mosque and appoints the imam as nazhir). Many small-scale waqf are still managed in this traditional way. However, individual nazhir may lack capacity for anything beyond caretaking the asset. The trend is towards institutional nazhir, usually foundations or organizations with legal entity status (often in the form of a Yayasan or Ormas). BWI's registration system assigns each approved nazhir (person or organization) a unique number. One of the key institutional players are the waqf boards of Indonesia's largest Islamic mass organizations: Nahdlatul Ulama (NU) and Muhammadiyah. Both NU and Muhammadiyah (each with tens of millions of members) have enormous waqf assets in the form of schools, universities, hospitals, and mosques nationwide. Each has waqf bodies that manage and develop these assets. For instance, Muhammadiyah's Majelis Wakaf dan Kehartabendaan (Council for Waqf and Assets) oversees waqf property and has engaged in efforts to certify idle waqf lands and put them to productive use. NU, through its charitable wing LAZISNU or specific waqf boards, does similarly at provincial levels (Ghozali & Annas (2024)). These organizations are crucial, given their reach and community trust; any national waqf strategy must involve them as partners.

Another class of institutional nazhir are Islamic philanthropic organizations and NGOs. Among them, Dompot Dhuafa (DD) stands out as one of the most prominent. Dompot Dhuafa, established in the 1990s, is an Islamic charity that manages ZIS (zakat, infaq, sadaqah) and waqf (use the term "ZISWAF" to denote their integrated management) (Waqf Core Principles Implementation Index in Dompot Dhuafa Foundation in 2022). DD has a dedicated waqf division called Tabung Wakaf Indonesia (TWI) which collects cash waqf and endows assets for projects in education, health, and economic empowerment ((Law No.41/2004, 2004)). It runs waqf-funded schools, a large waqf hospital, and various grants programs. Dompot Dhuafa's waqf management has been noted for its professionalism – it was evaluated using the Waqf Core Principles Implementation Index and found to excel in most criteria (Waqf Core Principles

Implementation Index in Dompét Dhuafa Foundation in 2022). Other NGOs include Yayasan Waqaf Pesantren (managing waqf for boarding schools), Aisyiyah (Muhammadiyah's women wing, which also handles waqf property like orphanages), and newer fintech-based organizations like Kitabisa or Amanah Waqf that use online platforms to pool waqf funds (often in small donations) for specific causes.

LKS-PWU (Islamic Banks) as Waqf Managers: While banks mostly serve as facilitators to collect cash waqf, some banks have gone further to create waqf management units or products. For example, Bank Muamalat and Bank Syariah Indonesia have marketed waqf savings accounts where the accrued profit or a portion of balance is periodically endowed. Additionally, there's the concept of Micro Waqf Banks (Bank Wakaf Mikro), which are sharia microfinance institutions established in pesantrens with OJK support, aiming to provide Qard Hasan (benevolent loans) to the poor. Despite the name "wakaf", these are funded by corporate social responsibility funds, not by waqf assets. But reflect an institutional innovation aligning with waqf's spirit (charge no interest and sustain operations via endowment-like funds).

- e) National Sharia Council – MUI: The DSN-MUI, while not managing waqf, plays a key role in issuing fatwas that guide waqf practices, particularly for new financial instruments. For any instrument like CWLS or share waqf, a DSN-MUI fatwa is essential to declare it sharia-compliant. The MUI is also influential in public education; when prominent ulama speak about the importance of waqf, it can encourage more participation. In fact, Vice President Ma'ruf Amin, who was Chairman of MUI, has been a vocal proponent of waqf literacy, calling for digital wakaf campaigns and trust-building measures (Perkuat Ekosistem Perwakafan Nasional, BWI Perlu Bersinergi dengan Pemangku Kepentingan Terkait | Sekretariat Negara).

In this institutional mosaic, coordination is pivotal. The Indonesian government in recent years formed the National Committee for Sharia Economics and Finance (KNEKS), which has identified waqf as a priority agenda. KNEKS helps synchronize efforts among BWI, MoRA, MoF, BI, OJK, and social organizations. One example of coordinated effort is the launch of the national cash waqf movement in 2021, which involved the President's Office, Vice President (as chair of KNEKS), BWI, BI, OJK, and representatives of philanthropic institutions and Islamic organizations, all in one event (Presiden Jokowi Resmikan Gerakan Nasional Wakaf Uang dan Brand Ekonomi Syariah) (Presiden Jokowi Resmikan Gerakan Nasional Wakaf Uang dan Brand Ekonomi Syariah). The event highlighted multi-stakeholder commitment to advancing waqf and showcased products like CWLS and digital waqf platforms.

Despite these structures, challenges persist in the institutional landscape. Many waqf nazhir at the local level are not formally registered with BWI, meaning they operate outside the purview of the national board. This can lead to mismanagement as seen in the Tapos case where a local nazhir took all waqf profits (Senjiati et. al., 2021) – had that nazhir been supervised or trained under BWI's programs, such deviation might have been prevented. There is also sometimes unclear delineation between MoRA's local officers and BWI's representatives regarding who should intervene when waqf problems arise (e.g., land disputes or nazhir negligence). The institutional harmonization is an acknowledged gap: the Vice President pointed out the need for better "harmonization of institutions and regulations" in

the waqf sector (Perkuat Ekosistem Perwakafan Nasional, BWI Perlu Bersinergi dengan Pemangku Kepentingan Terkait | Sekretariat Negara). Additionally, building public trust in waqf institutions is partly an institutional challenge. It hinges on these institutions demonstrating good governance and tangible impact. Initiatives like publishing a National Waqf Index (developed by academics and BWI) aim to periodically measure waqf development across provinces, which could encourage healthy competition and accountability.

In conclusion, Indonesia's waqf institutional landscape is rich and evolving. BWI, MoRA, and an array of nazhir institutions form the backbone, with support and oversight from financial regulators and the sharia council. Each plays a role in the lifecycle of waqf: from the moment a waqf is pledged, to how it's managed, to how benefits are distributed and monitored. Strengthening coordination among these players is essential for creating an integrated waqf ecosystem, where all components work in sync to maximize waqf's socio-economic impact. The subsequent section will delve into the regulatory challenges and gaps that many of these institutions are grappling with in their efforts to enhance waqf management.

### **Regulatory Challenges and Gaps**

Indonesia's comprehensive waqf laws and the multitude of institutions involved provide a strong foundation, yet several regulatory challenges continue to impede the optimal functioning of waqf. These gaps exist in both the formulation of rules and their implementation/enforcement. Below we outline the key challenges (Beik et. al., 2023) :

#### **1. Enforcement of Waqf Law and Nazhir Oversight**

While Law No. 41/2004 lays out clear rules (e.g., nazhir eligibility, the 10% cap on nazhir benefits, registration requirements), enforcing these at the grassroots is difficult. Many waqf arrangements, especially older or community-based ones, have not been updated to comply with the 2004 law. For instance, the law requires every waqf to be registered and the nazhir to report on the asset's management. In practice, small waqf (like a donated plot in a village) might still be managed informally by individuals unfamiliar with these rules. BWI and MoRA have limited reach to monitor each waqf. Consequently, there are cases of non-compliance: the Tapos, West Java case research revealed an individual nazhir taking all profits from a livestock waqf business and giving nothing to beneficiaries, contravening the law which entitles nazhir to a maximum of 10% (Senjiati et. al., 2021). Such cases indicate that regulations on nazhir duties and limits, though well-defined, are not uniformly observed. The challenge is enhancing oversight mechanisms. BWI has the authority to sanction or replace nazhir who mismanage waqf, but doing so requires information and legal processes. A national registry system is under development to track waqf assets and hold nazhir accountable, but it is not yet fully operational across all regions. Strengthening this system and possibly requiring periodic audits of significant waqf assets are needed regulatory steps.

#### **2. Fragmentation and Overlap in Institutional Roles**

As noted, multiple bodies share responsibility for waqf (BWI, MoRA, local governments for land issues, etc.). This can lead to regulatory overlap or gaps. For example, who is responsible for resolving a dispute when an heir challenges a waqf land donation? The religious court has jurisdiction, but BWI and MoRA might both have stakes in mediation. There have been instances of prolonged legal disputes over waqf land due to unclear authority. Moreover, BWI as an "independent" body sometimes lacks direct clout to enforce decisions without collaboration from government agencies. The Vice President specifically highlighted the need for better synergy and regulatory harmonization (Perkuat Ekosistem Perwakafan Nasional, BWI Perlu Bersinergi dengan Pemangku Kepentingan Terkait | Sekretariat Negara). One issue is that BWI regulations (peraturan BWI) may not have the same force as a government regulation unless adopted by a ministry. There is ongoing discussion to possibly strengthen BWI's mandate via an amendment to the law or a Presidential Regulation. Additionally, local government bylaws related to waqf (such as land use zoning for waqf property) sometimes do not exist or are not aligned with national waqf policies, creating uncertainties in implementing productive waqf projects.

#### **3. Public Awareness and Legal Literacy**

A regulatory framework can only be effective if the public (donors and managers) are aware of it. Low waqf literacy means many potential wakif do not know how to legally make a waqf (e.g., might donate an asset without formalizing it as waqf, risking future disputes). The government's National Waqf Movement explicitly aims to boost literacy and education (Presiden Jokowi Resmikan Gerakan Nasional Wakaf Uang dan Brand Ekonomi Syariah). Still, the gap is evident: surveys indicate most Indonesian Muslims have never been exposed to information on cash waqf schemes or the role of BWI. As a result, informal waqf arrangements persist outside the legal umbrella. Enhancing dissemination of information about Law 41/2004 and its benefits is a regulatory challenge. This could involve integrating waqf modules into pre-marital counselling (many donate waqf during life events), or training mosque imams to guide congregants on waqf. Without sufficient awareness, the community cannot hold nazhir accountable to legal standards either, which feeds back into governance problems.

#### **4. Productive Waqf Development and Investment Regulations**

Turning waqf assets into productive ones often requires navigating other regulatory areas – such as land use permits, investment licenses, or Shariah compliance rules. There can be regulatory bottlenecks in developing waqf land. For example, if a nazhir wants to build a commercial building on waqf land to generate income, may face difficulties using the land title (since waqf land cannot be mortgaged for financing). Banks might be hesitant to finance construction on waqf land due to uncertainty in collateral enforcement. To overcome this, creative legal solutions are needed (such as leasing waqf land to a developer under a long-term agreement, which is permitted as long as the land remains waqf). The Government and BWI have to provide guidance on these mechanisms. Regulation No. 42/2006 does allow istibdal (substitution of waqf assets) in very specific cases to enable development – for instance swapping a piece of waqf land for another of equal or greater value if it serves the maslahah (public interest) – but in practice this is seldom done, partly because nazhir fear legal repercussions or community backlash. Clearer standard operating procedures on how to do istibdal or utilize waqf assets as part of joint ventures could unlock more productive waqf projects, but require careful regulatory drafting to protect waqf principles.

In the case of cash waqf, once collected it must be invested in sharia-compliant ways. The law left details of permissible investments to be guided by fatwa and further rules. Currently, BWI and the DSN-MUI have approved certain instruments for waqf funds: e.g., mudaraba savings accounts in Islamic banks, Sukuk (both retail and corporate CWLS), and possibly equities (with DSN-MUI Fatwa 135/2020 on shares). But nazhir often lack investment expertise. The regulatory gap here is the absence of a dedicated waqf investment authority or fund that could pool waqf money and manage it professionally. BWI has recently set up a waqf-linked investment unit and even launched a pilot Waqf Investment Mutual Fund with a fund manager, but scaling that will require OJK's oversight and perhaps new regulations. Ensuring that nazhir invest waqf funds prudently is critical; there have been no major scandals yet, but misinvestment is a risk if, say, a nazhir invests waqf money in a failing business he owns – conflict of interest and lack of regulation could lead to loss of waqf value, an unacceptable outcome in waqf jurisprudence.

5. Technology and Digital Waqf: The rise of crowdfunding and fintech for waqf presents both opportunity and regulatory challenge. Online platforms (e.g., KitaBisa, Wakaf Salman, etc.) enable mass participation through small cash waqf contributions. Some platforms collaborate with BWI or registered nazhir to channel funds, but others might operate without clear regulatory frameworks. Issues of data security, fraud, and misuse of funds via digital platforms are real concerns. There is currently a gap as to which body regulates online waqf fundraising – is it BWI, or OJK (if considered a form of crowdfunding), or the Ministry of Communications (as an IT platform)? A specific regulation on “digital waqf” could clarify standards and licensing for these platforms. In December 2020, DSN-MUI issued a fatwa affirming the permissibility of cash waqf through digital means (mobile apps, etc.), which gave religious backing. Now, regulators need to integrate that into practical oversight. A positive development is that BWI is developing an electronic waqf services system (E-service) to digitize waqf transactions and documentation. This e-service could integrate banks, nazhir, and donors on one platform for transparency. The challenge will be to ensure interoperability and that regulations keep up with technology (for example, how to handle waqf via e-wallets,

or cross-border waqf donations online – currently unclear if, say, a donor from Malaysia can directly endow cash into an Indonesian waqf project and what laws apply).

## 6. Fatwa and Legal Synchronization

Generally, Indonesia has been proactive in synchronizing fatwas with regulations (the cash waqf fatwa preceded the law, the sukuk fatwa preceded CWLS issuance). Still, as new forms like waqf insurance (waqf of insurance benefits) or crypto-assets as waqf emerge, there might be lag in guidance. DSN-MUI did issue a fatwa in 2022 that life insurance benefits can be donated as waqf, but turning that into policy (for Takaful operators to offer a waqf option) is a next step. A gap is the absence of explicit mention of certain assets in Law 41/2004 (which enumerates many asset types but could not predict digital assets). Future regulatory updates may be needed to expressly accommodate new asset classes.

## 7. Monitoring and Evaluation Framework

A subtle regulatory challenge is measuring waqf's performance. Unlike zakat which has yearly targets and reports (because zakat is obligatory and managed partly by state), waqf's impact is less tracked. There is no national key performance index for waqf that nazhir must report against (aside from basic financial reports). As a result, policymakers lack granular data on, for example, how much revenue waqf assets generated this year, how many beneficiaries served, etc. In 2023, researchers proposed a National Waqf Index (Indeks Wakaf Nasional, IWN) to fill this gap (The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC) (The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC). identified factors like regulation, institutions, processes, etc., and found that regulatory and institutional factors are top priorities to address (The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC). Such an index could be adopted officially to monitor progress. For now, the regulatory gap is that no binding requirement compels nazhir to measure outcomes (beyond financials). Implementing a performance evaluation – even a simple one under BWI's coordination – would incentivize better management. Perhaps BWI could require larger nazhir to undergo an audit or evaluation every few years.

## 8. Land Waqf Certification Backlog

A very practical challenge is that not all waqf land is properly certified. Thousands of waqf parcels are still in the name of the original owner or their heirs (because were donated informally long ago). This creates legal uncertainty: those lands could be claimed back by unscrupulous heirs or fall into conflict. The regulation already says waqf must be registered, but enforcement in older cases is tricky. The government has run programs to certify waqf lands (often offering free land titling for waqf), but the process is slow and requires cooperation of local land offices and sometimes dispute resolution. This backlog means the legal status of many waqf properties is weak, hindering development or risking loss. Addressing this needs stronger mandates or special task forces at local levels.

In summary, the regulatory challenges for waqf in Indonesia are multi-dimensional. range from ensuring people follow the rules (enforcement and oversight) and updating those rules for new scenarios (digital waqf, new asset classes), to harmonizing multiple regulations and improving systemic monitoring. The government is aware of many of these issues – evidenced by high-level calls for better governance (Perkuat Ekosistem Perwakafan Nasional, BWI Perlu Bersinergi dengan Pemangku Kepentingan Terkait | Sekretariat Negara) and steps like launching national movements and indices. The next section will delve into case studies, where some of these regulatory and institutional issues become tangible. Each case will reflect how the current framework facilitates or constrains waqf and what lessons can be drawn for policy improvements.

## Case Study Analysis

To illustrate the practical realities of waqf management in Indonesia, this section examines three case studies: (a) L-Kaf Sidogiri, a local productive waqf institution; (b) Dompot Dhuafa's waqf programs, representing large-scale institutional waqf management; and (c) Cash Waqf-Linked Sukuk (CWLS), an innovative government-led instrument. These cases highlight successes, challenges, and the interplay between regulations and implementation on the ground.

### a. L-Kaf Sidogiri: Productive Waqf at a Pesantren

L-Kaf Sidogiri is a waqf institution operating under the umbrella of the Sidogiri Islamic Boarding School (Pesantren Sidogiri) in Pasuruan, East Java. Founded in 2015, L-Kaf (short

for Lajnah Kafalah perhaps) was established with the aim of mobilizing waqf funds to economically empower the community, especially families associated with the pesantren. It is officially registered as a nazhir with BWI, with registration number 3.3.00131 as of December 10, 2015 (Fauzi (2022)). The formal registration under BWI signifies that L-Kaf committed to managing waqf in compliance with national law and sharia guidelines from the outset.

**Unique Funding Model:** L-Kaf Sidogiri pioneered a grassroots fundraising approach, tapping into the strong community around the pesantren. Its funding sources are diverse and built on solidarity (Fauzi (2022)). include: (1) contributions from Sidogiri alumni network (who donate regularly out of loyalty to their alma mater), (2) deductions from salaries of employees of Sidogiri-affiliated businesses (Sidogiri has various cooperative businesses, retail stores, etc., whose staff contribute part of income as waqf), (3) monthly mandatory waqf contributions from teachers and staff working in the Sidogiri educational complex (Fauzi (2022)), (4) weekly donations from students – L-Kaf famously distributed 300 waqf drop boxes across the boarding school for students to insert small cash each week (Fauzi (2022)), and (5) a share of profits from Sidogiri-owned enterprises (such as a travel agency and a bottled water company) allocated as waqf (Fauzi (2022)). This model ensures a steady stream of micro-donations which aggregate into significant waqf funds. It also ingrains the habit of endowment among students and community members. By drawing on internal community resources, L-Kaf reduces reliance on outside donors and builds a sustainable base.

**Productive Waqf and Economic Empowerment:** Unlike classical waqf which might just build a mosque and stop, L-Kaf's strategy is explicitly productive. pool the waqf funds and invest them into business ventures and programs that support small entrepreneurs. According to a study by Fauzi (2022), L-Kaf implements a program called “L-Kaf Maslahat” where waqf funds are used to provide capital to local business owners or finance productive projects, and the profits are then cycled back as waqf for community benefit (Fauzi (2022)) (Fauzi (2022)). Essentially, it acts as an Islamic micro-investor or microfinance with waqf funds: giving interest-free capital to micro-entrepreneurs and expecting them to grow their businesses and repay or share profits which then go to social causes. Many small business owners around Pasuruan – such as farmers, shopkeepers, and artisans – have reportedly benefited, increasing their business productivity and improving their family incomes (Fauzi (2022)) (Fauzi (2022)). This aligns with waqf's role in poverty alleviation: instead of just giving handouts, the waqf fund empowers people to generate their own livelihood (akin to a waqf-supported microfinance scheme).

A concrete example of L-Kaf's investments is that channel funds into Sidogiri's own corporate ventures. Sidogiri Pesantren has a well-known cooperative BMT (Baitul Maal wat Tamwil) and other businesses; L-Kaf invested waqf capital into expanding a rubber and cocoa plantation under a scheme where local farmers work on waqf land and share profits. This not only yields returns (some of which fund scholarships for Sidogiri students) but also provides livelihoods – a double impact.

### **Compliance and Sharia Governance**

L-Kaf Sidogiri has taken care to operate within the legal and religious framework. The study notes that L-Kaf's implementation of waqf management aligns with applicable laws and Islamic principles (Fauzi (2022)). For instance, collaborated with Islamic banks (LKS-PWU) for certain fundraising methods (Fauzi (2022)). Likely, use Islamic bank waqf savings accounts to collect cash waqf from alumni across Indonesia, leveraging the banking network. By doing so, ensure documentation of waqf per law and also gain transparency (banks acting as intermediaries). Their management structure includes syariah advisors to ensure investments are halal and decisions are equitable.

One of the reasons L-Kaf was formed was actually to break from the “classical waqf” mentality where people donated only immovable assets for non-income generating uses (Fauzi (2022)). The pesantren saw many underutilized waqf properties with funding shortfalls. L-Kaf thus emerged to set an example that waqf can be managed dynamically. Within a few years, L-Kaf raised significant funds (the exact amount is not public, but local reports suggest it grew its waqf fund in the hundreds of millions of rupiah range quickly) and has become a model frequently cited in waqf seminars. Its approach is cited as successfully improving family economies in its community by providing financial support to small businesses, improving production quality and fostering resilience (Fauzi (2022)).

### **Challenges and Learnings**

L-Kaf's experience also sheds light on challenges. Initially, one challenge was convincing community members that waqf is not just for “after you die” but can be done in life with small amounts of cash. undertook community counseling so that people understood waqf is not



limited to immovable assets (Ghozali & Annas (2024)). This is essentially a literacy challenge that overcame through grassroots engagement. Another challenge was administrative – coordinating with BWI and banks to formalize the cash waqf flows. Being one of the first local institutions to utilize the cash waqf mechanism, had to navigate bureaucracy (opening LKS-PWU accounts, obtaining necessary approvals). Their success in doing so indicates that even small institutions can work within the regulatory system if motivated.

From a regulatory standpoint, L-Kaf shows that proper guidance and support to local nazhir can yield exemplary compliance and innovation. demonstrate that the 10% nazhir rule is workable: L-Kaf team takes modest fees, plowing most returns back to community programs. also illustrate the benefit of collaboration – by working with Islamic financial institutions, accessed broader donor networks and ensured transparency (Fauzi, 2022).

In sum, L-Kaf Sidogiri exemplifies a bottom-up waqf initiative that aligns well with national objectives of productive waqf and financial inclusion. It leveraged the legal allowance for cash waqf to mobilize funds from a wide base and invested according to maqasid (ensuring wealth circulates to benefit the less privileged). Their integrated approach (education, funding, business, charity all linked) marks a move toward an integrated waqf ecosystem at the community level. The case supports recommendations for scaling such models through training other pesantren or community organizations to replicate L-Kaf's mechanisms.

#### **b. Dompot Dhuafa: Integrating Waqf in a Philanthropic Institution**

Dompot Dhuafa Foundation (DD) is one of Indonesia's largest Islamic philanthropic institutions, well-known for its management of ZISWAF – zakat, infaq, sadaqah, and waqf – in a modern, transparent manner (Dompot Dhuafa, 2022). Established in 1993, Dompot Dhuafa has national reach with programs in poverty alleviation, health services, education, economic development, and religious propagation. While zakat is its primary mandate, waqf has grown to become a significant component of its operations, particularly through its Tabung Wakaf Indonesia (TWI) initiative. Institutional Structure and Governance: Dompot Dhuafa operates as a professional NGO with corporate-style management and governance. It emphasizes trustworthiness and modern management to instill confidence in donors and stakeholders (Waqf Core Principles Implementation Index in Dompot Dhuafa Foundation in 2022). The foundation has a board of supervisors, shariah advisors, and a robust financial reporting system. Each year, it publishes audited financial statements for public accountability. Within DD, waqf funds are managed by a dedicated division staffed with professionals who design waqf programs and monitor projects. This high level of institutional capacity sets Dompot Dhuafa apart from smaller nazhir and is likely a factor in its success. In fact, a recent assessment using the Waqf Core Principles Implementation Index (WCPII) found that Dompot Dhuafa excelled in core aspects of waqf management (Waqf Core Principles Implementation Index in Dompot Dhuafa Foundation in 2022). It scored highly on criteria such as governance, risk management, transparency, and impact measurement, indicating that DD is essentially a benchmark for how a waqf institution should operate (Abdullah, 2018).

Waqf Programs and Projects: Dompot Dhuafa's waqf portfolio is diverse. manage cash waqf collected from the public (one-time or periodic donations) and allocate it to various projects. Key waqf-funded projects include:

- Healthcare: Rumah Sehat Terpadu (RST) Hospital, a large waqf-funded hospital on the outskirts of Jakarta, provides free/subsidized medical care to the poor. The land and building were financed through waqf donations, and the hospital is operated under a sustainable model (cross-subsidizing from paying patients and other funding). This is often cited as a flagship example of waqf in modern healthcare in Indonesia.
- Education: Dompot Dhuafa has built schools and supported scholarships via waqf. For example, Smart Ekselensia, a free high-achieving secondary boarding school for underprivileged students, partly runs on waqf endowment whose returns fund the operations. Waqf funds are also invested in educational endowment funds that sponsor student scholarships and teacher training.
- Economic Empowerment: Through TWI, DD has funded numerous economic programs. One is the Waqf-based agriculture program where waqf funds purchased land or equipment for farming cooperatives, and yields support local communities. The mention of productive agricultural waqf in rubber and cocoa plantations ((Law No.41/2004, 2004)) likely refers to Dompot Dhuafa's investments in plantation estates whose profits finance community development (DD indeed had a Waqf for Productive Land initiative). Another initiative is a chain of Waqf-based clean water facilities and Waqf livestock centers to provide sustainable livelihood in rural areas.

- **Social Welfare Infrastructure:** Dompét Dhuafa uses waqf to build and maintain infrastructure like orphanages, community centers, and housing for the poor. These assets, once endowed, remain waqf but DD ensures their upkeep and that serve target beneficiaries.

Dompét Dhuafa's approach is to integrate waqf with its zakat and sadaqah programs for maximum impact. For instance, zakat (which must be spent directly on the eight categories of recipients annually) might fund operating costs or direct aid, while waqf provides capital for long-term assets (like building a school). Together, form a comprehensive strategy. DD often speaks of its five program pillars: health, education, economy, social, and da'wah/culture (Waqf Core Principles Implementation Index in Dompét Dhuafa Foundation in 2022) – waqf contributes to financing each pillar in a sustainable way.

### **Mobilization and Outreach**

Dompét Dhuafa, by virtue of being a large NGO, has been effective in mobilizing waqf from the public. It runs professional marketing campaigns, uses online platforms, and has collaboration with corporations and media. One innovative route is through corporate waqf and CSR: companies or wealthy individuals can endow assets via DD to leave a lasting legacy (for example, a corporation might donate a building as waqf which DD then uses as a community clinic). DD provides the assurance that these assets will be well-managed. Dompét Dhuafa also leverages technology; it was among early adopters of online donation portals and even explored blockchain for waqf asset tracking.

### **Regulatory Interface**

As a registered nazhir with BWI, Dompét Dhuafa complies with reporting requirements. It was part of the first cohort of nazhir to be officially licensed to collect cash waqf when the system began. DD channels cash waqf collection through Islamic banks (ensuring that formal waqf certificates are issued to donors, in line with regulations). Working at scale, Dompét Dhuafa also provides feedback to regulators; for instance, might advise BWI or DSN-MUI on practical aspects of new waqf instruments. One notable involvement was in the pilot Cash Waqf Linked Sukuk (CWLS)

Dompét Dhuafa acted as one of the nazhir aggregators for the first CWLS issuance (SW-001). collected cash waqf from their donor base and invested IDR 5+ billion into the sukuk on behalf of waqf donors, with the returns designated for their hospital's indigent patient fund. This demonstrated the synergy between an NGO nazhir and a government project.

### **Impact and Challenges**

Dompét Dhuafa's waqf projects have demonstrably benefited thousands of people – patients treated, students graduated, jobs created – showcasing waqf's potential in achieving social welfare. The scale of DD's operations means it also faces challenges: managing a growing asset base requires strong institutional capacity. must ensure every waqf asset's purpose is honored and maintain each asset (which can be costly, e.g., maintaining a hospital). mitigate this by cross-funding between waqf and other charitable funds when needed, but that requires careful accounting to remain sharia-compliant (not mixing funds improperly). Another challenge is that as DD grows, it might encounter regulatory constraints such as caps on investments or needing more sophisticated financial risk management. So far, it has navigated these well, partly through collaboration – e.g., co-managing waqf funds with experienced investment managers.

Dompét Dhuafa's success factors include trust, professional management, and clear impact, which circle back to regulatory lessons: stringent governance standards (like those measured by WCPII) and transparency can elevate waqf institutions' performance (Waqf Core Principles Implementation Index in Dompét Dhuafa Foundation in 2022). It underscores that if nazhir institutions are held to high standards (by themselves or by regulators), waqf donors respond positively – DD's waqf fundraising has grown year over year, reflecting public confidence. This case suggests that empowering and monitoring large nazhir organizations effectively can lead to large-scale mobilization of waqf for national development goals.

### **c. Waqf-Linked Sukuk (CWLS): Innovating Waqf through Capital Markets**

The Cash Waqf-Linked Sukuk (CWLS) is a pioneering initiative by the Indonesian government to integrate waqf into the Islamic capital market and state financing. It essentially bridges philanthropic capital (cash waqf) with sovereign sukuk instruments, creating a new model of social investment. Indonesia launched the world's first such instrument in March 2020, amid the push for the National Waqf Movement.

### Structure and Mechanism

In the CWLS model, individuals or institutions donate cash waqf for a specified period, and these funds are pooled to purchase a special series of Sovereign Sukuk (Surat Berharga Syariah Negara) issued by the government (Karim & Hakimi, 2023).

This structure creatively satisfies both shariah and public finance requirements: The waqf principal remains intact (invested in a risk-free sukuk guaranteed by the state), and its returns are used for social welfare, fulfilling the waqf's purpose. From the government perspective, CWLS provides a low-cost source of funding for social projects, because the sukuk investors (waqf providers) do not seek personal financial return or liquidity (the sukuk is non-tradable and waqf donors expect only social returns). The government only needs to service the sukuk coupons and repay principal to nazhir, who then handle it per waqf instructions.

### Institutional Coordination

Implementing CWLS required unprecedented coordination among various bodies, essentially forming a mini "ecosystem" for this instrument. According to Khamim et al. (2023), six state institutions and eight socio-religious institutions were involved in formulation and execution. Key players included: the Ministry of Finance (issuer of the sukuk and manager of funds usage in the state budget), BWI (who coordinated with nazhir and requested the sukuk issuance), Bank Indonesia and OJK (who facilitated and oversaw processes, though the sukuk itself was off-market), the Ministry of Religious Affairs (for public outreach to potential waqf donors), and the DSN-MUI (ensuring shariah compliance and issuing endorsements). On the nazhir side, BWI appointed a few reputable nazhir organizations (like Dompot Dhuafa, Rumah Zakat, Nahdlatul Ulama's Lembaga ZISWAF, and others) to collect the waqf pledges from the public and represent the waqf funds in purchasing the sukuk. These nazhir signed agreements with BWI and Ministry of Finance delineating their responsibilities.

The synergy achieved here is notable: the government was effectively working hand-in-hand with Islamic civil society to mobilize funds for mutual goals. The CWLS program also has a Waqf Sukuk Committee that includes BWI and shariah scholars to ensure continuous oversight.

### Outcomes and Impact

The first CWLS (SW-001) was successfully closed and its funds deployed as planned, benefiting healthcare services for the poor. Encouraged by this, the government issued a second sukuk, SW-002, under a Retail CWLS scheme in late 2020. The Retail CWLS allowed individual waqf donors to contribute smaller amounts (starting from IDR 1 million) through a digital platform to participate in the sukuk, vastly broadening access. It was essentially a crowd-funded sukuk where waqf donors could participate via fintech apps or banks. Khamim et al. (2023) note that Indonesia successfully issued both the initial CWLS and a Retail CWLS, integrating waqf with state sukuk through these two instruments. The retail issuance reportedly attracted thousands of small donors, raising on the order of IDR 24 billion (approx USD 1.7 million) which was used for social programs like disaster relief and educational waqf projects. The involvement of multiple state and religious institutions in these issuances is credited with ensuring both trust and smooth implementation.

Beyond the immediate social benefits (hospitals, relief funds, etc.), CWLS has a broader impact: it has introduced waqf to new segments of society (e.g., urban professionals who learned of CWLS via bank offerings) and demonstrated to policymakers that Islamic social finance can complement public finance. It provides a template that other Muslim countries are now studying, as it addresses the perennial issue of how to fund social infrastructure when budgets are limited. In effect, Indonesia's CWLS shows that with innovation, waqf can contribute to national development goals (like SDGs) – a finding also emphasized by researchers who argue that such instruments empower Islamic social welfare and national development simultaneously.

### Challenges and Considerations

Implementing CWLS also revealed challenges. One major issue was public awareness and understanding – the concept is novel and somewhat complex (a waqf that you might get back after 5 years if you chose temporary waqf). During SW-001 and SW-002 socialization, organizers had to clarify misconceptions (some thought it was an investment product for personal gain, which it is not; others worried if taking back principal in temporary waqf was Islamically allowed – it is, based on the fatwa, but it's a new idea. Trust is key: donors needed to trust the government and nazhir with their money for a long period. The involvement of BWI and respected nazhir helped, but any future misstep could erode that trust.

Another challenge is regulatory fine-tuning. For example, the Sukuk Law (No. 19/2008) did not originally envision waqf-specific sukuk. The Ministry of Finance had to use its existing

sukuk issuance framework to accommodate this, including getting approval from Parliament for the sukuk issuance because it affects state debt and budget (did so under the umbrella of project-based sukuk for social spending). also had to ensure the CWLS structure met shariah – DSN-MUI's involvement was critical to certify that temporary waqf is acceptable and that using waqf in a government debt instrument is permissible. The fatwa allowed it on grounds of social benefit and because the government's guarantee means the waqf principal is secure. For nazhir, a practical consideration is what to do with the returned principal on maturity if it's permanent waqf. Regulators and BWI are encouraging that by maturity, nazhir should have ready new projects or sukuk to reinvest in, to avoid idle waqf funds. This creates a cycle of ongoing waqf deployment. CWLS also faces the challenge of scale. The amounts so far (tens of billions of rupiah) are modest relative to government funding needs or waqf potential. To scale up, ongoing promotion is needed..

In conclusion, the CWLS case study exemplifies innovation at the intersection of waqf and public finance. It highlights how regulatory flexibility and cross-sector collaboration can create new avenues for waqf. It also shows that, given the right instruments, the public is willing to participate in waqf in more sophisticated ways than just donating land or putting cash in a charity box. The presence of a supportive legal framework (law permitting cash waqf and sukuk issuance) and proactive agencies (BWI, Ministry of Finance, etc.) was crucial. CWLS is a step toward an integrated ecosystem where waqf funds flow through financial markets into development projects, thus merging the Islamic social finance sector with the mainstream finance in a halal manner. The positive reception of CWLS in Indonesia suggests that other countries and multilateral institutions (like Islamic Development Bank) are taking note, potentially heralding a new era for waqf globally.

## 4. Discussion

### Toward an Integrated Waqf Ecosystem in Islamic Finance

The case studies, together with the preceding analysis, reveal a trajectory for waqf in Indonesia – from fragmented, underutilized assets towards a more integrated, impactful component of the Islamic financial ecosystem. “Integration” in this context means that waqf is not isolated within the charity sector, but interlinked with Islamic banking, capital markets, and national development plans, while still preserving its unique charitable character. In this section, we discuss how Indonesia can move toward such an integrated waqf ecosystem, drawing lessons from the cases and addressing lingering issues.

#### 1. Synergizing Waqf with Other Islamic Financial Sectors

One clear theme is that waqf works best not in a silo but alongside instruments like zakat, Islamic microfinance, and sukuk. For example, Dompot Dhuafa's integration of ZIS (short-term social funds) with waqf (long-term social capital) shows that beneficiaries can receive immediate assistance and long-term support in tandem. Similarly, the CWLS model integrates waqf with the Islamic capital market, allowing waqf to benefit from the financial infrastructure that normally serves commercial investors. Moving forward, policy should encourage partnerships between waqf institutions and Islamic financial institutions. Banks can offer waqf deposit products (as in Bangladesh's cash waqf deposits scheme where banks mobilize waqf savings – in Indonesia, banks like BSI have started doing this, but it can be expanded through OJK guidelines and perhaps profit-sharing incentives for banks to participate in waqf management. Takaful (Islamic insurance) can also be linked: e.g., a life takaful product that dedicates a portion of payout to waqf (MUI's fatwa on this enables such products). By embedding waqf options in Islamic banking and insurance services, the ecosystem ensures that at every financial touchpoint, waqf is a consideration – akin to how conventional banks ask customers for charity contributions.

#### 2. Strengthening Institutional Collaboration and Governance

An integrated ecosystem requires robust institutions that work in concert. Indonesia may consider establishing a formal coordination council on waqf (if not already under KNEKS), that meets regularly to align actions of BWI, MoRA, BI, OJK, and key nazhir representatives. This can institutionalize the multi-stakeholder synergy seen in one-off events like the CWLS launch. On governance, the adoption of the Waqf Core Principles (WCP) should be accelerated. If the WCP (transparency, accountability, good governance, risk management, shariah compliance, effectiveness) become a standard that all waqf institutions adhere to, it

will harmonize practices and boost trust. Perhaps a certification or rating system can be introduced where waqf institutions are rated on WCP compliance – high-rated ones could receive incentives or public recognition, spurring improvements among others.

### **3. Public Trust and Participation**

Integration is ultimately driven by people – if the public embraces waqf as part of their economic lives, waqf funds will flow and institutions will respond. Indonesia's efforts in literacy (like the National Waqf Movement) need to be sustained and creative. One idea is to embed waqf education in school curricula or community religious programs, so that the concept of waqf is understood from a young age not just as something only the rich do or only for mosques, but as a social responsibility that everyone can partake in according to capacity (like students at Sidogiri donating coins weekly). Another vital aspect is transparency and success stories: publicizing where waqf money goes and whom it helps can galvanize more participation. The case studies provide material for this – stories of farmers aided by L-Kaf or patients cured at a waqf hospital attach a human face to waqf's impact. Embracing digital platforms for transparency (e.g., real-time updates on waqf project progress, perhaps via an app) could attract the younger, tech-savvy generation to contribute.

### **4. Technological Integration – Digital Waqf Platforms**

Building an integrated ecosystem in the 21st century inevitably means leveraging technology. Imagine a national waqf digital portal that connects donors with all accredited waqf projects across Indonesia, akin to a marketplace for good causes. Donors could see various waqf opportunities (build a school, invest in a waqf sukuk, support a micro-venture via waqf) and contribute instantly online, receiving electronic waqf certificates. Blockchain technology could even be used for immutable record-keeping of waqf donations and asset use, enhancing trust. Some pilot projects globally have looked at blockchain for waqf to increase transparency. Indonesia's strong tech infrastructure in fintech could be harnessed to develop secure, user-friendly waqf apps. However, regulation must ensure these platforms are secure and trustworthy – perhaps through a licensing scheme for “digital nazhir” under BWI/OJK oversight. If done right, digital integration can massively scale waqf collection (much like GoFundMe or Kitabisa scaled general crowdfunding). It would also reduce transaction costs and improve data collection for the waqf index.

### **5. Legal and Policy Reforms**

To support integration, certain legal refinements are recommended. One, update or supplement Law 41/2004 to address current gaps – for example, explicitly accommodate temporary waqf, clarify BWI's authority in supervising nazhir (possibly granting sanction powers for negligence), and outline governance expectations for nazhir organizations. Two, consider tax incentives for waqf. Currently, corporate donations to waqf may not be fully tax-deductible (zakat is recognized in tax law, but waqf is not explicitly). If companies knew waqf contributions gave similar fiscal benefits, might allocate more CSR funds to waqf projects. Likewise, giving individual donors some tax relief for large waqf donations could encourage high-net-worth philanthropy. There is debate on this since waqf is voluntary charity (not mandated like zakat), but for integration with national development, it's an option.

Another policy idea is to integrate waqf targets into national development plans. For instance, the government could set a target: “X number of hospitals or schools built via waqf by 2025” and rally stakeholders to achieve it. That gives waqf a tangible place in public policy. In fact, waqf can help achieve SDGs (Sustainable Development Goals) in areas of health, education, poverty – articulating those links in policy documents would further solidify integration (The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC) (The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC).

### **6. Maximizing Impact and Ensuring Sustainability**

Integration also means ensuring waqf's impact is maximized and sustained. Projects like L-Kaf and Dompot Dhuafa show that productive use of waqf multiplies benefits. Thus, a principle for an integrated ecosystem is that wherever appropriate, waqf assets should be developed or invested rather than left idle. Of course, not all waqf has to generate income (some waqf like a graveyard has a static benefit), but where possible, turning waqf into self-sustaining ventures is key. This might involve training nazhir in business and social enterprise skills. We can envision more waqf-based social enterprises – for example, waqf funds establishing a factory that employs poor villagers and profits go to community welfare. These blend charitable

and commercial aspects, and integrated regulation would allow nazhir to engage in such ventures responsibly.

At the same time, safeguarding the perpetuity of waqf is non-negotiable – integration with finance should not lead to undue risk-taking that could deplete waqf assets. Thus, a cautious, well-governed approach is needed for any investment of waqf funds, with oversight by shariah advisors and perhaps conservative investment guidelines (as done in CWLS where the risk is minimal).

### **7. Human Capital Development**

An often underappreciated aspect is cultivating skilled human resources for waqf management. An integrated waqf ecosystem needs professionals who understand both fiqh al-waqf (Islamic law of waqf) and modern finance/management. Universities and training institutes should offer courses or certifications in waqf management. In Malaysia, for example, specialized programs exist producing “waqf managers”. Indonesia could invest in such training via BWI or Islamic universities, ensuring that each large waqf institution has qualified, certified managers at the helm. This professionalization will integrate waqf more firmly into the broader Islamic finance industry, as it creates career paths and expertise similar to Islamic bankers or fund managers.

### **8. Monitoring and Continuous Improvement**

Finally, building an integrated ecosystem is not a one-off task; it requires continuous monitoring and adaptation. Implementing the proposed National Waqf Index (IWN) will provide data to identify which regions or sectors are lagging and which strategies work best ( The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC ) ( The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC ). If, for instance, the index shows that regulatory factor scores are low, policymakers know to focus on updating regulations. If public awareness is still an issue, that will reflect in low outcome/impact scores, prompting more aggressive literacy campaigns. The index can become a management tool to guide the ecosystem’s evolution.

In conclusion, moving toward an integrated waqf ecosystem means breaking down silos between waqf and other elements of Islamic finance, ensuring supportive regulation and robust institutions, and actively engaging the public with transparent, innovative, and impactful waqf programs. Indonesia’s journey so far – with legal reforms, institution-building, and innovative cases – provides a strong platform to build upon. The nation is poised to demonstrate how waqf, an age-old institution, can be revitalized in a contemporary Islamic economy to complement state and market efforts in achieving social justice and shared prosperity. If successful, this integrated model can be a showcase for the world’s Islamic finance and social finance communities, fulfilling the vision of waqf as a pillar in the architecture of Islamic economics.

### **Policy Recommendations**

Drawing from our analysis of Indonesia’s waqf institutional and regulatory landscape and the insights gained from the case studies, we propose the following policy recommendations to enhance and integrate waqf into the Islamic financial ecosystem:

1. **Strengthen the Legal Framework and Enforcement:** Update Law No. 41/2004 on Waqf to address current gaps and ambiguities. This could include provisions for emerging forms of waqf (temporary waqf, digital waqf assets) and clearer delineation of BWI’s authority. Introduce stricter enforcement mechanisms – for example, empower BWI (in coordination with MoRA or local authorities) to audit waqf projects and sanction negligent or non-compliant nazhir. Implement a mandatory registration deadline for all existing waqf assets to formalize informal waqf, coupled with government assistance (legal aid and fee waivers) to register undocumented waqf lands. Ensuring that all waqf assets are documented and governed by the law will protect them from misuse or loss (Senjiati et. al., 2021).
2. **Enhance Nazhir Capacity and Governance:** Launch a national Nazhir Professionalization Program under BWI. This program would train and certify nazhir in modern management, sharia compliance, and project development. Only certified nazhir (individuals or institutions) should be allowed to manage large or collective waqf funds. Develop standard operating procedures and manuals based on the Waqf Core Principles for nazhir to follow. In addition, create a performance-based incentive system: for instance,

allocate government matching funds or grants to high-performing waqf institutions (those that show exemplary governance and impact, as measured by the National Waqf Index or WCPII scores. Conversely, require underperforming nazhir to undergo mandatory training or risk being delisted. By raising the professionalism of nazhir, donors will gain confidence that their endowments are in capable hands.

3. **Integrate Waqf with Islamic Financial Institutions:** Encourage and possibly require Islamic banks and takaful companies to incorporate waqf facilitation in their products. Bank Indonesia and OJK can issue guidelines for “Waqf-Friendly Banking”, where every Islamic bank must offer at least one waqf-linked product (e.g., a waqf savings account, waqf deposit certificate, or partnership with a nazhir to collect cash waqf at bank branches). Banks could act as collection agents (LKS-PWU) as already do, but this can be more deeply marketed and integrated into bank apps and services. Similarly, promote takaful plans that allow policyholders to donate a portion of payouts to waqf. The regulators can provide incentives such as lower reserve requirements for funds channeled to approved waqf investments, making it attractive for financial institutions to participate. Through these measures, waqf becomes a routine component of Islamic financial transactions, enlarging its contributor base.
4. **Expand Innovative Waqf Instruments:** Building on the success of Cash Waqf-Linked Sukuk (CWLS), the government should establish a regular issuance program for waqf sukuk (e.g., annually or biannually). Each issuance could target specific SDG-aligned projects (health, education, disaster relief, etc.), so waqf donors know the social cause their funds will address. To attract larger participation, allow both institutional and retail investors (through digital platforms) to contribute to CWLS. Additionally, explore other instruments like Waqf Shares and Waqf Mutual Funds. With DSN-MUI’s fatwa on waqf of shares, the Indonesia Stock Exchange and BWI could collaborate to create a mechanism where shareholders can waqf their shares easily (perhaps a dedicated waqf account at the securities depository). A specialized mutual fund could be launched where the capital is perpetual waqf and only the dividend income is distributed to charities – such a fund could appeal to CSR programs of corporations or high-net-worth individuals looking for lasting legacy contributions. Regulators should provide a supportive framework for these instruments, ensuring they are tax-efficient and sharia-compliant.
5. **Leverage Technology – Digital Waqf Ecosystem:** Develop a National Waqf Digital Portal under BWI’s oversight that aggregates all accredited waqf projects and allows one-stop contributions. This portal should have a transparent dashboard showing funds collected and progress of each project, updated in real time. It can incorporate features like electronic waqf certificates and options for donors to schedule regular waqf contributions (similar to recurring charity subscriptions). Work with fintech companies to integrate this portal’s API, so popular donation platforms and mobile e-wallets can plug into the national waqf system securely. To address risks, issue regulations on digital waqf platform operations, including requirements for data protection, fraud prevention, and shariah auditing. A regulatory sandbox approach by OJK can help pilot new waqf fintech solutions in a controlled environment. By making contributing to waqf as easy as a few taps on a smartphone, these digital efforts can significantly broaden outreach, especially to younger, urban demographics.
6. **Public Awareness and Educational Campaigns:** Intensify waqf literacy initiatives as a continuous effort rather than a one-time campaign. Collaborate with the Ministry of Education to include waqf topics in Islamic education curricula at schools and universities. For the general public, harness media and influencers: e.g., create documentaries and testimonials about successful waqf projects (like families empowered by L-Kaf Sidogiri, patients treated at waqf hospitals, etc.) and broadcast these widely. Engage popular religious preachers to talk about waqf in sermons, highlighting modern forms like cash waqf and their religious validity (many still mistakenly think waqf is only land or only for the rich – this needs re-education). The government and BWI could designate a “National Waqf Day/Week” each year with events like waqf fairs, where institutions showcase their projects to the public. As part of literacy, explain clearly the legal and financial processes – for instance, how someone can easily make a waqf of money or

assets today and what the protections are. When people understand and trust the waqf system, are more likely to contribute (Nasution et. al., 2021)).

7. **Harmonize Institutional Roles and Collaboration:** Formalize the roles of various stakeholders through Memoranda of Understanding or joint regulations. For example, establish a Joint Task Force between BWI and MoRA to streamline waqf land certification – this task force could target the completion of registering all waqf lands by a certain year, resolving cases where waqf status is unclear. Set up regular coordination meetings (perhaps quarterly) between BWI, MoRA, BI, OJK, and top nazhir organizations to review progress on waqf development and troubleshoot issues. Encourage provincial governments to form Waqf Coordination Forums involving local BWI representatives, regional religious offices, and Islamic civil society, so that national policies are effectively implemented at local levels. By breaking down silos, these collaborations will reduce overlap and ensure everyone is moving towards common goals (Perkuat Ekosistem Perwakafan Nasional, BWI Perlu Bersinergi dengan Pemangku Kepentingan Terkait | Sekretariat Negara).
8. **Monitoring, Evaluation, and Transparency:** Implement the Indeks Wakaf Nasional (IWN) as a key performance metric for the waqf sector ( The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC ). BWI (or KNEKS) can publish an annual Waqf Development Report using the index, showing scores for regulatory environment, institutional capacity, process efficiency, system development, outcomes, and impacts ( The development of national waqf index in Indonesia: A fuzzy AHP approach - PMC ). This report should be public and include data such as total waqf funds collected that year, number of new waqf projects, number of nazhir trained, etc. Such transparency will allow the government and community to gauge what is working and where interventions are needed. On a micro level, require that all nazhir managing significant assets release annual reports summarizing their waqf assets, how were utilized, revenues generated, and beneficiaries reached – akin to an annual “waqf financial and impact report” posted on their websites or provided to BWI. Increased transparency and data flow will not only build trust but also help policymakers identify successful models to replicate and problematic areas to address.
9. **Legal Support and Dispute Resolution:** To ensure confidence in the waqf system, strengthen legal support mechanisms. Provide accessible legal advisory services (perhaps via BWI or Islamic law clinics at universities) to assist in drafting waqf deeds, handling inheritance issues that intersect with waqf, and resolving conflicts between waqf stakeholders. The religious court system should be sensitized and possibly given additional guidance on expediting waqf-related cases, since protracted legal battles can discourage donors. Consider creating an Alternative Dispute Resolution (ADR) center for waqf under BWI to mediate issues outside court. Efficiently resolving uncertainties and disputes will maintain the integrity of waqf assets and encourage more people to endow without fear of future legal complications.
10. **Government Support and Co-Funding:** The government can demonstrate its commitment by co-funding strategic waqf projects. For instance, for every rupiah of waqf raised to build a school in a poor area, the government could match a portion (similar to matching grants in social projects). This kind of public-private-philanthropic partnership amplifies impact and signals that waqf is complementing public expenditure, not replacing it. Additionally, local governments could provide non-cash support, such as leasing government land on token terms for waqf projects or waiving permit fees for waqf construction. Aligning waqf projects with governmental development programs (like stunt-ing reduction programs, rural development, etc.) can ensure fill gaps and receive support. At the highest level, keeping waqf on the national agenda – e.g., through mention in the Medium-Term Development Plan (RPJMN) or President’s directives – will institutionalize these efforts and allocate resources accordingly.

By implementing these recommendations, Indonesia can accelerate the maturation of its waqf ecosystem. The goal is a virtuous cycle: robust laws and capable institutions attract more waqf contributions; these funds are transparently and productively deployed to meet development needs; success stories then inspire further contributions. Over time, waqf would stand alongside Islamic banking and zakat as a fully integrated pillar of Islamic finance, contributing



significantly to social welfare and economic empowerment in Indonesia (Nasution et. al., 2021). The Indonesian experience also has the potential to serve as a model for other countries aiming to rejuvenate their waqf sector through modern best practices blended with classical wisdom.

## 5. Conclusion

Waqf in Indonesia is at a transformative juncture. Historically entrenched in social and religious life, waqf is now being recalibrated to function as a dynamic instrument within the country's Islamic financial ecosystem. This article set out to analyze the institutional and regulatory dimensions of that transformation and to chart a course toward greater integration and impact of waqf.

We found that Indonesia has made commendable strides by establishing a supportive legal framework (Law 41/2004 and related regulations) and creating an institutional backbone (BWI and affiliated entities) for waqf development. The recognition of movable waqf assets, especially cash waqf, has opened new avenues that did not exist in earlier periods. Key stakeholders – from government bodies to Islamic organizations – have shown increasing collaboration, exemplified by initiatives like the National Waqf Movement and Cash Waqf-Linked Sukuk.

The ethos of productive waqf, while gaining ground, is still not uniformly embraced across all waqf holdings; numerous waqf properties lie idle or serve narrow purposes when could be leveraged for broader community benefit. In essence, the ecosystem is only part-way toward maturity – the foundations are in place, but integration and optimization are works in progress.

The case studies provided concrete lessons. L-Kaf Sidogiri illustrated how grassroots ingenuity, aligned with proper sharia and legal guidance, can turn even small contributions into a sustainable waqf venture that lifts economic well-being (Fauzi, 2022). It highlighted the importance of community engagement and the viability of partnering with Islamic financial institutions at the micro level. Dompét Dhuafa showed that with professional management and adherence to high governance standards, a waqf institution can achieve scale and trust, mobilizing millions in waqf for tangible social outcomes.

In concluding, it is important to reflect on the broader implications. The rejuvenation of waqf in Indonesia aligns with global trends in Islamic finance that seek greater social impact. It resonates with the concept of Islamic finance not merely as a commercial industry but as a means to achieve al-falah (collective well-being and success). Indonesia's experiences and innovations, as documented here, can offer valuable lessons to other Muslim-majority countries rethinking their waqf systems – from legal reforms to innovative instruments like CWLS. There is scope for knowledge exchange and perhaps even cross-border waqf initiatives (for instance, waqf-linked sukuk issued regionally for common causes, given the success domestically).

Finally, this study has focused on qualitative and institutional aspects. For future research, it would be beneficial to quantitatively assess the economic impact of waqf projects (e.g., how many jobs does a waqf-funded enterprise create, or what is the return on social investment of a waqf hospital). Also, comparative studies between Indonesia's waqf developments and those in other countries (Malaysia, Turkey, etc.) could yield deeper insights into best practices and pitfalls. As waqf in Indonesia continues to evolve, ongoing research

should track its progress – particularly the outcomes of implementing the policy recommendations and whether the envisioned integrated ecosystem comes to fruition.

In summary, “reconstructing” the role of waqf in Indonesia’s Islamic financial ecosystem is an endeavor in building bridges: between tradition and modernity, between disparate institutions, and between private charity and public benefit. Indonesia’s journey so far shows a strong foundation and promising momentum. With sustained effort and strategic reforms, waqf can indeed be reconstructed from a largely static pious endowment into a dynamic, institutionalized force for inclusive growth and social justice in the country. This would not only fulfill the religious and moral objectives of waqf but also significantly contribute to Indonesia’s development goals and the welfare of its people – a true embodiment of the Quranic injunction of spending in the way of Allah for the benefit of humanity.

## References

- 1) Abdullah, Z. (2018). Priority Aspects of Waqf Management in Indonesia. *Al-Falah: Journal of Islamic Economics*, 3(1). (Discusses strategic priorities for improving waqf management effectiveness in Indonesia).
- 2) Badan Wakaf Indonesia (BWI). (2018). Core Principles for Effective Waqf Operation and Supervision. (Joint publication with Bank Indonesia and IRTI-IsDB; outlines 11 Waqf Core Principles to guide governance of waqf institutions).
- 3) Badan Wakaf Indonesia (BWI). (2021). Perkuat Ekosistem Perwakafan Nasional, BWI Perlu Bersinergi dengan Pemangku Kepentingan (Press release, 7 May 2021).
- 4) Beik, I. S., Sholihin, M., Lestari, Y. D., & others. (2023). The development of national waqf index in Indonesia: A fuzzy AHP approach. *Heliyon*, 9(5), e15834.
- 5) Dompot Dhuafa. (2022). Annual Report 2021: ZISWAF Management and Social Impact. Dompot Dhuafa Publishing. (Provides data on Zakat and Waqf funds collected and disbursed by Dompot Dhuafa, with case studies of health, education, and economic empowerment programs).
- 6) Fauzi, N. A. (2022). Productive Waqf for Family Economic Empowerment: Perspective of Law Number 41/2004 on Waqf. *Ijtihad: Jurnal Wacana Hukum Islam dan Kemanusiaan*, 22(1), 1-20.
- 7) Ghozali, M., & Annas, M. (2024). Waqf Management as a Means to Improve the Economic Strategy of the People. *Istiqro: Journal of Islamic Law, Economics and Business*, 10(2), 194-203.
- 8) Government of Indonesia. (2020). Sovereign Sukuk (SW-001) Issuance Decree. Ministry of Finance. (Authorizes issuance of the first Cash Waqf-Linked Sukuk SW-001, IDR 50 billion, 5-year tenor, for healthcare projects) (Government Issued First Cash Waqf-Linked Sukuk in 2020 - KarimSyah Law Firm).
- 9) Ihsan, H., & Ibrahim, S. H. H. M. (2011). WAQF accounting and management in Indonesian WAQF institutions: The cases of two WAQF foundations. *Humanomics*.
- 10) Karim, M. (2024). Government Issued First Cash Waqf-Linked Sukuk in 2020. *KarimSyah Law Firm Newsletter*, 27 June 2024.
- 11) Khamim, Muala, A., & Hakim, M. L. (2023). Cash Waqf Linked Sukuk for Islamic Social Welfare and National Development: Evidence from Indonesia. *Global Journal Al-Thaqafah*, 13(1), 39-52..
- 12) MUI – DSN (National Sharia Council). (2020a). Fatwa No. 133/DSN-MUI/II/2020 on Cash Waqf-Linked Sukuk.
- 13) MUI – DSN (National Sharia Council). (2020b). Fatwa No. 135/DSN-MUI/V/2020 on Waqf of Shares.
- 14) MUI (Majelis Ulama Indonesia). (2002). Fatwa MUI No. 2/2002 on Cash Waqf (Wakaf Uang).
- 15) Nasution, Lokot Zein, Diba A. Aris, M. Suryadinata, & Y. Nurhayanti. (2021). Reinforcing the Position of Waqf in the Islamic Financial Ecosystem in Indonesia. *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah*, 13(2), 150-170.
- 16) Senjiati, I. H., Sulistiani, S. L., & Mubarak, M. F. R. (2021). Analysis of Fiqh Waqf and Law No. 41/2004 regarding Nazhir Rights in Cash Waqf Management in Tapos Village. *Amwaluna: Jurnal Ekonomi dan Keuangan Syariah*, 5(2), 240-255.
- 17) Tanjung, H., Ayuniyyah, Q., Devi, A., & Yulianto, A. R. (2024). Waqf Core Principles Implementation Index in Dompot Dhuafa Foundation. In *Proceedings of the 2nd IICASS 2024 (Advances in Social Science Research, vol. 871)*. Atlantis Press.
- 18) World Bank & BWI. (2022). Indonesia Waqf Report: Unlocking Waqf Assets for Social Impact.
- 19) Yusoff, M. E., et al. (2021). Charting Waqf Administration Challenges: A Multi-Country Perspective. *Journal of Islamic Accounting and Business Research*, 12(4), 475-490.