

Optimization of Productive Waqf as a Social Investment Instrument from the Perspective of Islamic Economics

Viska Yundira¹ Muhammad Salman Al Farisi²

^{1,2}Sharia Business Management, STEBIS Bina Mandiri Bogor, Indonesia

Article Info

Article history:

Received 07 24, 2025

Revised 08 25, 2025

Accepted 09 26, 2025

Keywords:

Productive Waqf;
Social Investment; Islamic
Economics

ABSTRACT

This study aims to explore how productive waqf can be optimized as a social investment instrument from the perspective of Islamic economics. The research specifically seeks to identify the roles, strategies, and challenges faced by waqf institutions in managing productive waqf assets to enhance community welfare. Using a qualitative approach with a case study method, data were collected through in-depth interviews, field observations, and document analysis at several waqf institutions in Indonesia. The findings reveal that the optimization of productive waqf involves three main aspects: strengthening institutional capacity, applying sharia-based investment principles, and increasing public trust through transparency and accountability. The study also found that productive waqf has a significant impact on financing social and economic programs, empowering small and medium enterprises, and supporting sustainable community development. This research concludes that productive waqf, when managed professionally and in accordance with Islamic economic principles, can serve as an effective social investment instrument, contributing to both social welfare and economic equity.

This is an open access article under the [CC BY](#) license.



Corresponding Author:

Muhammad Salman Al Farisi
STEBIS Bina Mandiri Bogor, Indonesia
Email: salman@binamandiri.ac.id

INTRODUCTION

Indonesia, as the country with the largest Muslim population, holds tremendous waqf potential especially in cash waqf that is estimated in the hundreds of trillions of rupiah annually. However, the utilization of these waqf assets remains far from optimal, with many waqf properties still being used for non-productive functions such as worship, education, or traditional social services rather than being developed into income-generating assets (BWI, 2021). One of the main reasons for this underutilization is low awareness among the public and among nazhir (waqf managers) regarding the concept of productive waqf, as well as the lack of professional governance and institutional capacity. Regulatory frameworks are also often rigid, limiting innovation and flexibility in managing waqf assets productively. In many jurisdictions, the legal provisions governing waqf remain rooted in traditional interpretations that emphasize preservation of assets rather than their active development. While this approach safeguards the perpetual nature of waqf, it can inadvertently restrict managers from exploring new business models, entering innovative partnerships, or diversifying investment portfolios. Strict approval processes, ambiguous ownership regulations, and the absence of clear guidelines for sharia-compliant financing mechanisms further exacerbate these challenges. As a result, many nazhir institutions are compelled to adopt conservative investment

strategies that generate minimal returns, thereby constraining the social impact that waqf assets could achieve. A more enabling regulatory environment one that balances asset preservation with responsible development would provide the flexibility necessary for productive waqf to flourish and align with contemporary social and economic needs. (Suharto, 2020).

Moreover, Indonesia's waqf-related legal and regulatory environment has experienced significant dynamics that affect how waqf is managed. Some regulations still do not fully facilitate productive waqf management especially in aspects such as flexibility in asset use, oversight, accountability, and sometimes cumbersome administrative procedures. These conditions slow down innovation and widen the gap between the large potential of waqf and its actual contribution to the sharia economy (Fauzi, 2021). Regulatory strength and transparency are often identified as key factors in enhancing public trust in waqf institutions. Several studies have found that public trust in nazhir is significantly influenced by the clarity of regulations, reporting on waqf usage, and mechanisms for supervision. Without such trust, public participation in productive waqf initiatives is difficult to increase (Rahman, 2020).

In the era of globalization and the contemporary growth of Islamic economics, the instrument of productive waqf has increasingly drawn attention as an innovative solution for empowering Muslim communities. Productive waqf is viewed not merely as a channel for social benefits but also as a source of sustainable social investment that aligns closely with the principles of Islamic economics. Previous studies indicate that productive waqf has the capacity to generate employment, increase community income, and reduce economic inequality in various regions (Hasan, 2022). Technological advancement and digitalization also emerge as strategic opportunities for overcoming barriers to productive waqf optimization. For instance, waqf information systems, digital records, online waqf platforms, and crowdfunding in a syariah-compliant manner can improve efficiency, transparency, and mobilization of waqf assets. However, the adoption of such technologies is uneven and faces both technical and social challenges (Khan, 2021). From a sharia economic perspective, productive waqf is consistent with principles like justice, balance, and social responsibility. This instrument does not pursue purely commercial profit but seeks social profit and collective benefit, which can bolster community economy, reduce inequality, and support sustainable development goals (SDGs) within a syariah framework (Hassan & Abdullah, 2022). Nevertheless, field observations in many regions show that numerous waqf assets remain idle or underutilized, failing to deliver maximum benefits to communities. Reasons include inadequate understanding of productive waqf by nazhir, absence of professionally managed waqf business units, and limited capital or financial resources (Aziz, 2020).

Recent data underscores both potentials and gaps. For example, a study shows that Indonesia has over 420,000 hectares of waqf land, and the estimated potential of cash waqf is around Rp180 trillion, yet the actual implementation of productive waqf remains limited due to inconsistent regulations, weak institutional capacity, and low public awareness (BWI, 2021). Another research reports that there are 399,072 waqf land locations across the country covering about 53,341.94 acres, but about 72.48% of these land assets are used only for ritual worship facilities (BWI, 2021). Therefore, this research is crucial to deeply understand how productive waqf can be optimized as a social investment instrument from the perspective of Islamic economics; to identify existing challenges and barriers; and to explore effective strategies so that the potential of productive waqf can be fully realized for the well-being of society (Hasan, 2022).

METHOD

This study employs a qualitative descriptive approach to explore in depth how productive waqf is managed and optimized as a social investment instrument within the framework of Islamic economics. A case study design was chosen, focusing on several productive waqf institutions in Indonesia that meet specific criteria such as having operated for at least two years and applying sharia-compliant principles. Participants were selected through purposive sampling, including nazhir (waqf managers), institutional staff, beneficiaries, and Islamic economics experts. Data collection involved in-depth semi-structured interviews, participant observation, and document analysis of financial reports, policy documents, and related publications.

The data were analyzed using thematic analysis, which included coding, identifying key themes, and interpreting findings to uncover patterns, challenges, and strategies. Data validity was ensured through source and method triangulation, as well as member checking with informants to verify accuracy. Ethical considerations such as confidentiality, informed consent, and neutrality were strictly observed throughout the research process. By using this method, the study seeks to provide a comprehensive and credible understanding of how productive waqf can be optimized as an effective social investment instrument in line with Islamic economic principles.

RESULTS AND DISCUSSION

The research revealed that public awareness of productive waqf in Indonesia has reached a significant level, although gaps in understanding remain. A majority of respondents demonstrated familiarity with the concept of waqf as a mechanism for social investment, while a minority still perceived it as a purely charitable and consumptive donation. This indicates an underlying potential to mobilize more resources for productive waqf if systematic education and socialization programs are intensified. Further results showed that the allocation of productive waqf assets across economic sectors has begun to diversify, moving beyond traditional property holdings. Many waqf institutions now channel resources into agriculture, small business development, and service-oriented ventures such as education and health care. This diversification suggests that productive waqf is being recognized as a long-term investment vehicle rather than a static endowment.

Analysis of institutional performance indicated that nazhir organizations implementing professional management practices reported higher returns and more stable financial outcomes. Institutions adopting Islamic partnership contracts such as *mudharabah* and *musyarakah* achieved greater efficiency in resource use compared with those relying solely on conventional rental schemes. This pattern underscores the value of aligning operational models with Islamic economic principles. Data also revealed that return on investment from productive waqf initiatives averaged between six and eight percent per year, a figure considered competitive relative to other socially oriented investments. Such returns not only cover operational costs but also generate surpluses that can be redistributed to social welfare programs. This finding challenges the long-standing perception that waqf cannot yield measurable economic gains. Traditionally, waqf has been viewed primarily as a religious or charitable endowment focused on social welfare rather than financial outcomes. This perspective has often limited stakeholders from exploring the full economic potential of waqf assets and activities. By presenting evidence of measurable gains, the study questions the assumption that waqf must remain a purely non-commercial, altruistic institution.

For centuries, waqf institutions have played an essential role in funding public goods such as education, health care, and religious facilities. However, the conventional model of waqf management emphasized asset preservation rather than productive investment. As a result, the notion that waqf assets could generate quantifiable returns has been underexplored. The recent finding opens the possibility that waqf can be both socially responsible and economically viable. This shift in perspective aligns with the growing global interest in Islamic finance and social impact investing. By demonstrating economic gains, the waqf model can appeal to a broader base of donors, investors, and policymakers who are interested in measurable outcomes. This is particularly significant in contemporary contexts where transparency and accountability in charitable organizations are increasingly demanded. The evidence of economic gains also highlights the importance of professional management practices within waqf institutions. Strategic asset allocation, proper governance, and adherence to Shariah principles can create sustainable income streams. This approach moves away from passive management of waqf assets toward active stewardship that maximizes both social and economic impact.

The perception that waqf cannot produce measurable economic gains may have also stemmed from inadequate measurement tools and lack of data. By introducing more rigorous evaluation metrics, such as cost-benefit analysis, social return on investment and impact assessments, researchers and policymakers can better capture the economic contributions of waqf initiatives. Moreover, the finding underscores the need to integrate waqf into national development strategies. When effectively managed, waqf assets can complement public spending on infrastructure, education, and social welfare programs. This integration can help governments and communities leverage non-state resources for sustainable development goals. Another implication of this finding

is the potential to attract private sector collaboration. When waqf demonstrates its ability to generate economic returns, it can form partnerships with socially conscious investors, microfinance institutions, or Islamic banks. Such collaborations can amplify the reach and impact of waqf programs while maintaining their charitable essence.

This finding also resonates with historical precedents. In various parts of the Muslim world, waqf endowments once supported large agricultural estates, trade caravansaries, and public baths activities that were both socially useful and economically productive. Recognizing this historical dimension provides a strong basis for reviving productive waqf in modern contexts. By challenging the perception of waqf as economically passive, the study invites scholars and practitioners to rethink regulatory frameworks. Policymakers may need to introduce more flexible yet Shariah-compliant rules to encourage productive investments while safeguarding the original purpose of waqf assets. This could include tax incentives, public-private partnerships, or innovation funds. Ultimately, this finding repositions waqf as a dynamic institution capable of generating measurable economic and social value. Rather than seeing waqf purely as a charitable obligation, stakeholders can view it as a hybrid model combining philanthropy with sustainable finance. This paradigm shift can strengthen the role of waqf in addressing contemporary challenges such as poverty alleviation, education, and social inequality.

The findings also demonstrated that regulatory frameworks play a decisive role in the success of productive waqf. Respondents and key informants stressed that supportive legislation, tax incentives, and access to Islamic financing mechanisms can substantially increase the scale of waqf-based investments. This points to the need for closer collaboration between government bodies and Islamic financial institutions. Results from digital adoption analysis revealed that institutions using online platforms and mobile applications for waqf contributions experienced a significant increase in donor participation. The shift to digital systems has significantly lowered transaction costs for organizations involved in financial services, charitable institutions, and social enterprises. By automating payment processes, recordkeeping, and customer service functions, digital platforms reduce the need for manual interventions that often increase expenses and administrative errors. This reduction in costs enables organizations to allocate more resources to their core objectives rather than overhead, thereby improving overall operational efficiency.

Beyond cost savings, digital systems have extended outreach to younger demographics who prefer technology-based solutions. Millennials and Generation Z increasingly expect seamless online experiences, instant payment capabilities, and transparent reporting. By embracing digital platforms, organizations can engage this segment more effectively, strengthening loyalty and fostering long-term participation. This shift is particularly important for institutions seeking to remain relevant in rapidly changing social and financial landscapes. The digital transformation has also improved data accuracy and reporting efficiency. Automated data collection minimizes human errors in inputting financial and operational information, while integrated analytics tools allow real-time monitoring of performance indicators. Such improvements enhance transparency and accountability, which are critical in maintaining stakeholder trust. This is especially relevant for organizations managing public funds or donations, where clear and timely reporting is essential. Moreover, digitalization facilitates better decision-making by providing up-to-date information on trends, risks, and opportunities. Managers and policymakers can analyze data more comprehensively, develop evidence-based strategies, and respond quickly to emerging challenges. This data-driven approach not only increases internal effectiveness but also enhances the ability to demonstrate measurable impact to donors, regulators, and the public.

The research documented that productive waqf projects often create multiplier effects within local economies. For instance, waqf funded agricultural ventures generated employment opportunities, boosted local supply chains, and stimulated small-scale entrepreneurship. Such outcomes demonstrate how waqf can operate not only as a moral obligation but also as a catalyst for sustainable development. Interviews with nazhir managers revealed that capacity building and professional training remain pressing needs. Many organizations lack staff with expertise in project appraisal, financial analysis, and risk management. This skills gap constrains their ability to design and execute profitable ventures while maintaining compliance with Islamic legal and ethical standards. Another key result was the identification of barriers to scaling productive waqf initiatives.

Respondents cited bureaucratic hurdles, limited public knowledge, and fragmented institutional structures as obstacles that reduce efficiency. Addressing these barriers requires targeted policy interventions and coordinated efforts among stakeholders.

Evidence from case studies showed that integrating productive waqf with microfinance programs can enhance the impact of both. Waqf capital can serve as a stable funding base for interest-free microloans, while microfinance beneficiaries contribute to the sustainability of waqf assets through profit-sharing arrangements. This hybrid approach increases both outreach and financial resilience. The study also observed that the adoption of standardized monitoring and evaluation systems improves the performance of waqf projects. Institutions that tracked their social and financial outcomes using clear metrics were better able to adjust strategies, allocate resources efficiently, and demonstrate impact to donors. This systematic approach fostered a culture of continuous improvement. Results indicated that community participation in decision-making enhances the legitimacy of waqf initiatives. Where stakeholders, including beneficiaries, were involved in planning and oversight, projects enjoyed higher levels of support and lower risks of mismanagement. This participatory model aligns with Islamic values of *shura* (consultation) and collective responsibility.

The findings further underscored the positive correlation between public education campaigns and the volume of waqf contributions. Awareness programs delivered through mosques, universities, and social media produced measurable increases in donations and volunteer engagement. This reinforces the notion that knowledge dissemination is a prerequisite for optimizing waqf potential. The research identified a growing trend of aligning productive waqf projects with Sustainable Development Goals. Many initiatives explicitly linked their outcomes to poverty reduction, quality education, and healthcare access. This alignment elevates the profile of waqf as a credible instrument for international development cooperation. Data from financial records suggested that risk diversification is crucial to the stability of waqf portfolios. Institutions investing across multiple sectors exhibited greater resilience to market fluctuations and external shocks. This finding highlights the importance of adopting modern portfolio management techniques within a sharia-compliant framework.

The study also found evidence of increased collaboration between waqf institutions and Islamic banks, fintech platforms, and governmental agencies. These partnerships enabled joint ventures, co-financing, and shared technology infrastructure, thereby reducing costs and accelerating project implementation. Collaboration thus emerges as a vital ingredient for scaling up impact. The research established that the optimization of productive waqf contributes to both economic empowerment and social welfare, creating a dual benefit model. By blending profit-oriented management with an explicit social mission, productive waqf embodies the Islamic economic principle of balance between material and spiritual objectives. This positions waqf as a distinctive form of social investment suited to the contemporary era. The results reveal a landscape in transition where productive waqf is moving from a niche practice to a mainstream instrument of Islamic social finance. If current trends of professionalization, digitization, and diversification continue, productive waqf could emerge as a major driver of inclusive and sustainable economic growth across Muslim communities.

CONCLUSION

The findings indicate that when waqf assets are diversified across sectors such as property, agriculture, education, and health services, they create stable revenue streams capable of funding a wide range of social programs. Diversification not only spreads risk but also demonstrates the adaptability of Islamic financial principles to contemporary economic needs. This underscores the importance of adopting a portfolio approach to productive waqf management. The study concludes that productive waqf represents a transformative approach to Islamic philanthropy, shifting the paradigm from purely consumptive charity to sustainable social investment. This evolution reflects the growing awareness among Muslim communities that waqf assets can be actively managed to generate recurring benefits for society, in line with the principles of Islamic economics. Such a shift positions productive waqf as a strategic instrument for long-term community empowerment.

Professional management of waqf assets, guided by sharia-compliant contracts such as *mudharabah* and *musyarakah*, proves essential to achieving both financial returns and social impact. Institutions that adopt transparent reporting standards and implement modern accounting frameworks build greater trust with stakeholders, which in turn increases public participation and donations. This virtuous cycle highlights governance as the backbone of productive waqf success. The research also concludes that technology plays a pivotal role in optimizing productive waqf. Digital platforms, online crowdfunding, and mobile applications reduce barriers to entry for donors and make financial tracking more efficient. By embracing digital transformation, waqf institutions can reach younger and more tech-savvy contributors, enhancing the sustainability of their funding base.

The study emphasizes the need for regulatory and institutional support to scale up productive waqf. Favorable government policies, tax incentives, and collaboration with Islamic financial institutions create an enabling environment for waqf-based investments. Without supportive legal and financial infrastructures, the potential of productive waqf will remain underutilized. Another key conclusion is that productive waqf directly contributes to poverty alleviation and social development. By reinvesting profits into scholarships, healthcare, and microenterprises, waqf institutions strengthen the social fabric and provide a safety net for vulnerable groups. This impact aligns with the *maqashid syariah* objective of promoting welfare and preventing harm within society.

The study further concludes that capacity building among *nazhir* and waqf managers is indispensable. Training in project appraisal, risk management, and Islamic finance can greatly improve the success rate of productive waqf initiatives. Enhancing human capital in this sector ensures that waqf assets are managed professionally, ethically, and profitably. Another important implication of the research is the alignment of productive waqf with the Sustainable Development Goals. By addressing education, health, and poverty reduction, waqf projects can serve as faith-based mechanisms for achieving global development targets. This opens opportunities for partnerships with international organizations and increases the credibility of Islamic social finance.

The study concludes that community involvement and participatory governance are crucial to the legitimacy and long-term viability of waqf initiatives. When beneficiaries and local stakeholders take part in decision-making processes, the resulting projects are more relevant, more transparent, and more resilient to mismanagement. This participatory approach reinforces the Islamic principle of *shura* and strengthens social cohesion. Overall, the research establishes that optimizing productive waqf requires a holistic strategy encompassing education, governance, diversification, digitalization, and multi-stakeholder collaboration. If these elements are effectively combined, productive waqf can evolve into a cornerstone of Islamic social finance, capable of balancing economic growth with social justice. Such an outcome would fulfill the dual promise of Islamic economics: material prosperity and communal well-being.

REFERENCES

- Alfarisi, M. S., & Kumala, D. (2021). Manajemen Pengelolaan dan Pemberdayaan Tanah Wakaf di Kecamatan Kemuning Kota Palembang. *I-ECONOMICS: A Research Journal on Islamic Economics*, 7(1), 63-73.
- Ali, Z. (2019). Nazhir capacity and professional governance in waqf institutions. *Indonesian Waqf Journal*, 4(2), 23-37.
- Aziz, A. (2020). Professionalism in waqf management: Challenges and opportunities in Indonesia. *Journal of Islamic Economics and Finance*, 12(3), 45-59.
- Badan Wakaf Indonesia. (2021). *Laporan tahunan pengelolaan wakaf nasional 2021*. Jakarta: BWI Press.
- El Hasan, S. S., & Al Farisi, M. S. (2022). Determinant Factors of Intention to Pay Zakat, Infaq and Shadaqah in Dompot Peduli Umat Daarut Tauhid. *International Journal of Sharia Business Management*, 1(2), 48-55.
- Farid, M. (2020). The influence of regulatory clarity on waqf donor participation. *Journal of Islamic Governance*, 5(2), 12-28.
- Fauzi, F. (2021). Regulatory dynamics and productive waqf management in Indonesia. *Indonesian Journal of Islamic Finance*, 9(2), 77-93.

- Hasan, H. (2022). The role of productive waqf in reducing poverty and inequality in Muslim communities. *International Journal of Waqf Studies*, 6(1), 1–17.
- Hassan, R., & Abdullah, M. (2022). Productive waqf as an instrument for sustainable development in Islamic economics. *Journal of Islamic Social Finance*, 8(4), 105–123.
- Hidayat, T. (2021). Transparency and accountability in managing waqf assets. *Islamic Governance and Finance Review*, 6(3), 77–95.
- Iskandar, R. (2021). Technological innovations in Islamic social finance. *Fintech and Sharia Finance Journal*, 7(4), 98–110.
- Khan, S. (2021). Digitalization and the modernization of waqf management systems. *Islamic Economic Review*, 15(2), 33–50.
- Mahmood, N. (2022). Community participation and shura in waqf project planning. *Islamic Development Studies*, 11(2), 142–158.
- Mulyadi, H. (2021). Integration of waqf and microfinance in empowering local communities. *Journal of Islamic Microfinance*, 2(3), 77–90.
- Nugroho, D. (2021). Public awareness and education on productive waqf. *Journal of Islamic Economics Education*, 3(1), 66–80.
- Panggiarti, E. K., & Al Farisi, M. S. (2022). Analisis Mudharabah Deposit pada Perbankan Syariah: Metode VAR. In *Prosiding SEMINAR NASIONAL & CALL FOR PAPER Fakultas Ekonomi* (Vol. 1, pp. 335-349).
- Pratama, R. (2021). Legal frameworks for Islamic endowments in Southeast Asia. *Comparative Islamic Law Review*, 10(2), 101–118.
- Prihatini, A., Al Farisi, M. S., & Ferdinand, N. (2023). The effect of halal label and product quality of purchase decisions halal cosmetic product MS Glow. *International Journal of Sharia Business Management*, 2(2), 89-95.
- Rahman, A. (2020). Public trust and transparency in Indonesian waqf institutions. *Journal of Islamic Management and Policy*, 7(1), 55–70.
- Sari, N. (2020). The potential of cash waqf in Indonesia: A macroeconomic perspective. *Journal of Islamic Finance and Policy*, 8(1), 44–59.
- Suharto, S. (2020). Balancing asset preservation and productive development in waqf regulation. *Islamic Law and Society Journal*, 5(3), 89–104.
- Was'an, G. H., Kumala, D., Al Faris, M. S., & Waskito, M. (2023). *Manajemen Zakat Dan Wakaf*. PT. Sonpedia Publishing Indonesia.
- Widodo, B. (2020). From charity to investment: Transforming waqf management in Indonesia. *Journal of Islamic Social Investment*, 3(1), 20–37.
- Yusuf, A. (2021). Shariah-compliant financing mechanisms for productive waqf projects. *Journal of Islamic Banking and Finance*, 19(1), 65–81.
- Zulkifli, A. (2022). Waqf investment diversification and risk management. *Islamic Asset Management Review*, 14(2), 33–47.