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STRATEGIC OPTIMIZATION OF CASH WAQF IN INDONESIA, A PRODUCTION FUNCTION AND GOVERNANCE-BASED APPROACH

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ABSTRACT

Cash waqf (*waqf al-nuqud*) has emerged as a dynamic instrument within the broader framework of Islamic social finance, offering a flexible, inclusive, and potentially high-impact mechanism for sustainable development in Muslim-majority societies. Despite its significant potential—particularly in countries like Indonesia, where the annual estimated cash waqf capacity exceeds IDR 180 trillion—its realization remains suboptimal due to limitations in governance, institutional professionalism, and public trust. This study aims to develop a conceptual model for optimizing cash waqf management in Indonesia by integrating Islamic jurisprudential principles, behavioral economics, and production theory. Utilizing a qualitative, literature-based approach, the research synthesizes theoretical insights with practical models such as Interpretive Structural Modeling (ISM), SWOT analysis, and case studies from Indonesia (Waqf Amerta) and Malaysia (ICWME-I). A simplified production function model—WT=f(P,N)WT = f(P, N)—is proposed, where cash waqf output (WT) is determined by waqf potential (P) and the professionalism of nazhir institutions (N). Findings highlight that strategic optimization of cash waqf requires a multi-level approach involving regulatory reforms, human capital development, institutional transparency, and systematic public engagement. The study advocates for the establishment of professional *nazhir* institutions modeled after financial industry standards, with active state support in education, certification, and governance. By bridging theoretical and practical dimensions, this paper contributes to the growing literature on Islamic philanthropic finance and offers a strategic framework for enhancing the role of cash waqf as a vehicle for inclusive socio-economic transformation.

Keywords: Cash Waqf; Islamic Social Finance; Nazhir Professionalism; Production Theory; Waqf Optimization; Strategic Modeling; Good Waqf Governance

INTRODUCTION

In recent decades, Islamic social finance has gained renewed attention as a viable mechanism for addressing poverty, inequality, and underdevelopment in Muslim-majority countries. Among its key instruments, waqf (Islamic endowment) holds significant promise due to its inherent sustainability and ability to generate long-term social benefits. Historically, waqf institutions have played a critical role in financing education, healthcare, and public infrastructure across the Islamic world, from the Ottoman Empire to contemporary Southeast Asia. As one of the oldest and most enduring philanthropic systems in human civilization, waqf continues to offer an ethical alternative to conventional welfare models by linking charitable giving to asset-based development.

Cash waqf (waqf al-nuqud)—a modern innovation within the traditional waqf framework—has emerged as a flexible, inclusive, and scalable solution for contemporary socio-economic challenges. Unlike land-based waqf, cash waqf allows for more liquid, diversified, and productive uses of charitable capital, especially when managed professionally through sharia-compliant investment mechanisms. In Indonesia, which has one of the largest Muslim populations in the world, the potential of cash waqf is substantial—estimated at up to IDR 180 trillion annually. However, despite regulatory support and growing institutional frameworks, the realization of this potential remains limited, primarily due to governance, human resource, and structural inefficiencies.

Existing literature has examined various facets of cash waqf development, including regulatory design, stakeholder engagement, and institutional transparency (Hasan & Siraj, 2017; Rusydiana, 2018; Mohamed Asmy et al., 2016). However, few studies have attempted to integrate economic theory—particularly production theory—with Islamic social finance to provide a quantifiable and strategic model for optimizing waqf performance. Moreover, while theoretical and empirical models exist in isolation, a synthesized framework that bridges classical Islamic concepts, behavioral theory, and structural modeling remains underdeveloped.

This study seeks to fill this gap by proposing a multi-dimensional model for optimizing cash waqf in Indonesia, grounded in Islamic jurisprudence, production theory, and strategic modeling (ISM, SWOT). It introduces a simplified production function—$WT=f(P,N)WT = f(P, N)$—to simulate how variations in waqf potential (P) and nazhir professionalism (N) affect social output (WT). Through conceptual analysis, supported by literature synthesis and case studies from Indonesia and Malaysia, the paper contributes to the growing body of knowledge on Islamic philanthropic optimization and waqf-based development models.

LITERATURE REVIEW

1. Theoretical Foundations of Waqf in Islamic Jurisprudence

Waqf is a foundational concept in Islamic socio-economic philosophy, defined as the perpetual dedication of an asset for religious or charitable purposes. Classical jurists such as Imam Nawawi, Ibn Hajar al-Haytami, and Al-Qalyubi emphasized that waqf entails withholding the corpus of an asset while allocating its benefits for public good. While not explicitly detailed in the Qur’an, waqf is widely recognized as an application of the broader Islamic commands to perform charity and promote communal welfare (Ali, 1988; Fathurrohman, 2006). The well-known *ḥadith* “When a human being dies, all actions are cut off except three: a continuing charity, beneficial knowledge, and a righteous child who prays for them” (HR Muslim) is often cited as the primary prophetic basis for waqf.

In contemporary interpretations, waqf is viewed as part of the third sector in Islamic economics—distinct from private and public sectors—and plays a vital role in sustainable development, social justice, and income redistribution (Qahaf, 2005; Az-Zuhaili, 2007). Its flexibility allows for adaptation to modern financial instruments, including cash waqf, which has gained significant traction in recent decades.

2. Development of Cash Waqf, Models and Institutional Challenges

Cash waqf (*waqf al-nuqud*) emerged historically under the Ottoman Empire, particularly in Egypt during the 16th century, facilitated by the Hanafi school of law, which accepted movable assets as valid for endowment (Cizakca, 2004; Crecelius, 2006). In the modern era, Professor M. Mannan reintroduced cash waqf in Bangladesh through the Social Investment Bank Limited (SIBL), using Cash Waqf Certificates to collect funds from donors and channel profits to the poor. This model inspired adaptations across the Muslim world, including in Malaysia and Indonesia.

In Indonesia, the Majelis Ulama Indonesia (MUI) formally endorsed cash waqf in 2002 through a fatwa, followed by the establishment of the Badan Wakaf Indonesia (BWI). Recent studies (Rusydiana, 2018; Rahayu & Rusydiana, 2019) have applied structural frameworks such as Interpretive Structural Modeling (ISM) and SWOT analysis to identify systemic barriers and strategic enablers of cash waqf development. Key themes include the need for professional nazhir, transparency, regulatory support, and innovative marketing.

Empirical and conceptual research also highlights international best practices, including Malaysia's Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) model (Mohamed Asmy et al., 2016), which links waqf funding with microenterprise financing, and Indonesia's Waqf Amerta program, which applies portfolio investment strategies to finance higher education (Muammar & Syadid, 2020). These models underscore the importance of institutional capacity, financial integration, and public trust in waqf sustainability.

3. Production Theory and Strategic Optimization in Islamic Finance

Economic optimization, particularly through production theory, offers a valuable analytical framework for assessing waqf performance. Classical microeconomic models posit that firms aim to maximize profit by selecting optimal combinations of input factors—capital, labor, land, and entrepreneurship (Sukirno, 2016; Nicholson, 2002). This logic can be adapted to non-profit Islamic institutions, where the objective is maximizing social utility rather than profit.

Recent Islamic economics literature supports the application of quantitative models to waqf and zakat optimization (Hassan et al., 2018; Saad et al., 2016). The proposed function WT=f(P,N)WT = f(P, N), where cash waqf output (WT) depends on waqf potential (P) and nazhir professionalism (N), captures this logic and facilitates policy-driven analysis. The alignment of resource efficiency with maqāṣid al-sharī'ah provides a compelling basis for adopting production-oriented strategies in Islamic social finance.

METHODOLOGY

This study employs a qualitative and conceptual research approach aimed at developing a strategic model for optimizing cash waqf (*waqf al-nuqud*) in Indonesia. The research is exploratory in nature and based primarily on a systematic literature review of scholarly publications, regulatory documents, and institutional reports related to Islamic social finance, productive waqf management, and economic theory. Emphasis is placed on synthesizing classical Islamic concepts with contemporary strategic and economic models.

To support the analysis, the study adapts established theoretical frameworks such as the production function model, Interpretive Structural Modeling (ISM), and SWOT analysis. These models help identify the core challenges, strategic levers, and stakeholder roles in the development of cash waqf. In addition, the research incorporates case study analysis from both Indonesia (e.g., the Waqf Amerta program) and Malaysia (e.g., the ICWME-I model) to provide contextual insights and validate the conceptual framework.

The analytical focus centers on a modified production function: WT=f(P,N)WT = f(P, N), where cash waqf output (WT) is a function of potential waqf capital (P) and the professionalism of *nazhir* (N). This functional representation forms the basis for policyoriented recommendations. While no empirical data collection was conducted, the study contributes a structured foundation for future research, which may include quantitative validation, stakeholder surveys, or simulation-based modeling.

RESULTS

a. Waqf

1. The Concept and Legal Foundation of Waqf in Islam

Waqf is fundamentally distinct from zakat in Islamic jurisprudence. While zakat is a mandatory pillar of Islam (fard), waqf is a voluntary, perpetual endowment rooted in *sunnah* practices. Its primary purpose is to seek nearness to Allah through acts of lasting charity. Unlike zakat—which is directly distributed to the needy such as the poor (*fuqara'*) and destitute (*masakin*)—waqf involves preserving the principal asset while allocating its usufruct (benefit or yield) to socially beneficial causes.

Linguistically, *waqf* derives from the Arabic root waqafa–yaqifu–waqf (to stop or hold). Synonymous terms such as *habasa* and *habs* (to detain or preserve) were widely used during the time of the Prophet Muhammad (peace be upon him) and his companions (Fathurrohman, 2006, p. 36). Classical scholars such as Al-Munjid (1986, p. 916) and modern jurists regard *waqf* as a form of withheld wealth whose benefits are channeled perpetually for religious or charitable purposes.

2. Comparative Institutional Frameworks

In Western contexts, equivalent structures to *waqf* include foundation, endowment, corporation, and trust. According to the Oxford Dictionary, a *foundation* refers to property dedicated in perpetuity to support an institution. An *endowment* denotes a gift or donation made to an organization, often invested to generate income. A *trust* involves fiduciary responsibility where assets are managed for the benefit of others—analogous to *waqf* with its enduring social function and non-profit orientation (Qahaf, 2000, pp. 45–46).

3. Definitions from Islamic Jurisprudence

Waqf has been defined in various ways by scholars across madhahib. In the Shafi'i school, definitions converge on the idea of "withholding an asset whose principal remains intact while its benefit is donated perpetually."

- Imam Nawawi defines *waqf* as the retention of an asset whose benefit is given away for pious causes, while its core remains unchanged (Al-Munawi, *al-Taysir*).
- Al-Syarbini and Al-Ramli emphasize detachment of ownership and preservation of the asset.
- Ibn Hajar al-Haytami and Shaykh Umairah define it as detaining property and severing the owner's rights, provided it serves lawful ends.
- Shaykh Shihabuddin al-Qalyubi synthesizes these definitions, noting: "*Habs al-mal yumkinu al-intifa' bihi ma'a baqa'i 'aynihi 'ala mashrafin mubahin*" – i.e., withholding property for lawful use while preserving its essence (Al-Kabisi, 2004, p. 41).

4. Qur'anic and Prophetic Basis for Waqf

While no explicit term for *waqf* appears in the Qur'an, its principles are embedded in verses promoting *infāq* (charitable giving), *birr* (righteousness), and mutual cooperation in good deeds:

- Al-Ma'idah (5:2) urges believers to cooperate in piety and refrain from aggression, forming a general basis for communal welfare activities such as *waqf*.
- Al-Ma'un (107:7) rebukes those who withhold social assistance.
- Al-Baqarah (2:267) commands the giving of the best wealth in charity.
- Ali 'Imran (3:92) emphasizes that true piety is achieved only by giving away beloved possessions—often interpreted to encourage waqf.

- Al-Hajj (22:77) links worship with acts of goodness, of which *waqf* is a prime example due to its lasting benefit (Fathurrohman, 2006).

These verses form the theological and ethical underpinnings of *waqf*, particularly as a model of sustainable philanthropy.

5. Prophetic Traditions Supporting Waqf

Numerous hadith provide direct support for *waqf* as a form of *ṣadaqah jāriyah* (ongoing charity), notably:

- The hadith narrated by Abu Hurairah (HR. Muslim et al.): *"When a man dies, his deeds end except for three: ongoing charity, beneficial knowledge, or a righteous child who prays for him."*
- Umar ibn al-Khattab's waqf of land in Khaybar—established with the Prophet's guidance—prohibits its sale or inheritance while donating its yield to the poor and other causes (Sabiq, 1986).
- Uthman ibn Affan's purchase of the Raumah well, declared as waqf for public use, was commended by the Prophet (al-Baghawi).

These precedents legitimize *waqf* not only in principle but also as institutionalized practice within Islamic civilization.

6. The Role of Ijtihad and Contemporary Implications

While foundational sources support *waqf*, much of its detailed regulation arises from *ijtihad*—independent reasoning—by scholars over centuries. As stated by Az-Zuhaili and Mustafa al-Zarqa (cited in Qahaf, 2005), most waqf regulations are rooted in analogical deduction (*qiyās*) rather than explicit revelation. This gives rise to a dynamic potential: waqf institutions may evolve through multidisciplinary reform, integrating fiqh, public policy, and modern financial tools.

Such flexibility enables *waqf* to serve not only *ibadah* purposes but broader socio-economic functions—education, healthcare, infrastructure, and poverty alleviation—especially in modern Muslim societies like Indonesia.

b. Cash Waqf, Conceptual Foundations and Contemporary Development

1. Historical Origins and Legal Foundations

Cash waqf (*waqf al-nuqud*)—the practice of endowing monetary assets for charitable purposes—has historical roots in the Ottoman Empire, particularly in Egypt during the late 16th century (1555–1823 CE). The widespread application of the Hanafi school of jurisprudence during this period allowed for the institutionalization of cash waqf, despite the lack of direct textual support from hadith. Imam Muhammad al-Shaybani, a leading Hanafi jurist, affirmed that movable assets could be used for waqf purposes if accepted by prevailing customs. Al-Sarakhsi extended this view further, maintaining that local custom (*'urf*) need not be a prerequisite for validating cash waqf.

As noted by Crecelius (2004), the Ottoman Empire demonstrated remarkable administrative capacity in recording and supervising waqf activities:

"No Islamic state was more energetic in its production of statistical records, more systematic in its record keeping, and more assiduous in preserving these records than the Ottoman Empire."

Three critical factors underpinned the establishment of cash waqf under Ottoman legal and administrative systems:

1. Recognition of movable assets as waqf-compliant
2. Acceptance of money as a legitimate asset
3. Institutional approval of monetary endowments

2. Contemporary Revival, From Bangladesh to the Islamic World

The modern revival of cash waqf is often attributed to Prof. M. Mannan, who introduced the concept through the Social Investment Bank Limited (SIBL) in Bangladesh. SIBL issued Cash Waqf Certificates to collect funds from wealthy donors and channel returns to the poor. This model showcased the flexibility and inclusivity of cash waqf in addressing poverty and social injustice across Muslim-majority societies.

In Indonesia, the Majelis Ulama Indonesia (MUI) issued a fatwa on 11 May 2002, formally recognizing cash waqf as *permissible (jawaz)*. The fatwa included the following key points:

- Cash waqf can be made by individuals or institutions in the form of national currency or financial instruments
- The principal (waqf capital) must be preserved and cannot be sold, gifted, or inherited
- The returns on investment must be used exclusively for *shar'i*-compliant purposes
- Cash waqf must be managed professionally by authorized *nazhir* institutions

3. Principles and Benefits of Cash Waqf

The core mechanism of cash waqf involves the preservation of principal capital while distributing the generated returns (*istithmar*) to designated beneficiaries (*mauquf 'alaih*). Several practical advantages have positioned cash waqf as a viable tool for Islamic social finance:

- Inclusivity: Cash waqf allows even those with limited financial means to participate. With a minimal amount (e.g., IDR 1,000,000), individuals can become *waqif* and receive a formal certificate.
- Asset Mobilization: It can unlock dormant waqf assets, such as unused land, through development financing.
- Support for Islamic Education: Educational institutions often face cash flow challenges; cash waqf provides a stable funding base.
- Fiscal Independence: Muslim communities can strengthen self-reliance without over-dependence on state budgets.
- Everlasting Rewards: As an ongoing charity (*ṣadaqah jāriyah*), cash waqf ensures enduring spiritual benefits for the donor.

4. Institutional Infrastructure and Economic Potential

The success of cash waqf depends heavily on institutional support, public awareness, and efficient fund management. In Indonesia, the Badan Wakaf Indonesia (BWI) collaborates with licensed Islamic Financial Institutions (LKS-PWU) to collect and manage cash waqf, ensuring transparency, accountability, and professional investment.

To enhance participation and outreach, institutions often emphasize the five value propositions of cash waqf:

Value	Description
1. Accessibility	Everyone can participate, regardless of wealth
2. Ease of Use	Funds can be transferred anytime, anywhere
3. Capital Preservation	The original donation remains untouched
4. Social Benefit	Profits are used for religious and community services
5. Eternal Reward	Continuous spiritual merit for the *waqif*

Furthermore, cash waqf serves as a financial intermediation tool—channeling surplus wealth from high-income groups to productive uses benefiting low-income groups. Cash-Waqf Certificates play a crucial role in this process, transforming traditional charity into a structured financial mechanism.

5. Potential Impact in the Indonesian Context

Indonesia, with a large Muslim population and emerging middle class, presents a significant opportunity for scaling cash waqf. Mustafa Edwin Nasution estimated that with 10 million middle-class Muslims, each contributing modest monthly donations (IDR 500,000 to IDR 10,000,000), it is feasible to accumulate up to IDR 3 trillion annually.

However, effective deployment requires that *nazhir* institutions adhere to strict investment protocols. The original endowment must remain intact, and only the returns from its investment may be distributed. This requires robust financial expertise, risk management, and governance structures.

c. The Theory of Charity and Social Utility

The theory of charity and social utility illustrates the relationship between an individual's consumption and the satisfaction (utility) derived from that consumption. This theoretical framework draws on the classical economic principle of diminishing marginal utility, which posits that the additional satisfaction a person derives from consuming an extra unit of a good decreases as consumption increases.

To exemplify, consider the case of an individual (Ahmad) who drinks several glasses of water. The first glass yields a high level of satisfaction, say 10 units of utility. The second glass provides less (e.g., 8 units), the third even less (e.g., 5 units), and by the fourth, the utility gained may drop to 2, or eventually zero or even negative. This illustrates the declining benefit of excessive consumption for a single individual.

This concept is effectively visualized in the standard Diminishing Marginal Utility Curve, where the total utility increases at a decreasing rate until it plateaus or declines.

Comparative Scenarios: Individual vs. Social Utility

Let us now analyze two contrasting scenarios:

- Scenario A: Ahmad consumes all four glasses of water himself. The total utility he receives is 25 units (10 + 8 + 5 + 2). Since only one person benefits, the utility gap—the difference between the highest and lowest utility among individuals—is also 25.
- Scenario B: Ahmad drinks only one glass and shares the remaining three glasses with three others: Umar, Usman, and Ali. Each individual receives 10 units of utility, resulting in a total utility of 40. Importantly, the utility gap is zero, as all recipients receive equal satisfaction.

Scenario	Glasses Consumed	Number of People	Total Utility	Utility Gap
A	4 (Ahmad only)	1	25	25
B	4 (shared)	4	40	0

Source: Bank Indonesia. *Wakaf: Pengelolaan dan Tata Kelola yang Efektif* (2016)

This comparison highlights that while the quantity of resources (glasses of water) remains the same, Scenario B produces greater overall utility and equity, embodying the spirit of distributive justice central to Islamic economic ethics.

Charity, Altruism, and Islamic Economic Ethics. Scenario B exemplifies the Islamic principle of altruism (*ithar*), where one sacrifices personal benefit for communal well-being. In Islamic teachings, charity (*sadaqah*) and waqf are foundational tools for achieving *maslahah ‘ammah* (public benefit). While *sadaqah* typically involves direct consumption by beneficiaries, *waqf* preserves the principal asset, generating sustainable benefit over time.

Thus, while the act of Ahmad sharing his water is closer to *sadaqah*, the logic behind it—prioritizing collective over individual utility—parallels the philosophy of productive waqf. Productive waqf entails investing endowed funds (such as cash waqf) in low-risk, socially impactful ventures, with the returns benefiting underprivileged populations (*mauquf ‘alaih*).

This aligns with the Qur’anic command in Surah Al-A‘raf (7:31):

"Eat and drink, but do not be excessive. Indeed, He does not like the extravagant."

The verse emphasizes balance in consumption and encourages sensitivity toward the needs of others—a core tenet underlying Islamic philanthropic economics.

Implications for Islamic Social Finance

The economic model illustrated here provides a theoretical justification for redistribution mechanisms in Islamic finance. By reducing the utility gap through sharing or endowing resources, social welfare is maximized, and the risk of inequality is mitigated. This reaffirms the significance of Islamic instruments like waqf and sadaqah as not merely acts of piety, but as strategic tools for inclusive economic development.

d. Models for Developing Cash Waqf

1. Institutional and Structural Approaches

Aam S. Rusydiana (2018), in his study titled *"The Application of Interpretive Structural Modeling (ISM) for Cash Waqf Development Strategies in Indonesia"*, categorizes the development of cash waqf into three key dimensions: (1) Core challenges in implementing cash waqf. (2) Strategic foundations for development. (3) Stakeholders involved in the ecosystem

The study highlights that systemic constraints—particularly in regulation, product design, institutional frameworks, and technology infrastructure—represent primary obstacles to effective implementation. As for strategic enablers, three key drivers are identified: (1). Transparency and accountability of waqf institutions. (2). Capacity-building for professional *nazhir*. (3). Innovative marketing and outreach strategies

Stakeholders such as the Indonesian government, Badan Wakaf Indonesia (BWI), and Bank Indonesia play critical roles in policy, governance, and monetary integration. These findings are consistent with previous literature (Ihsan et al., 2017; Hasan & Siraj, 2017; Masruki & Shafii, 2013), which underscore financial transparency as the central determinant of public trust and sustainability in waqf management—collectively referred to as Good Waqf Governance.

2. SWOT-Based Strategic Frameworks

Further elaboration was provided in the work of Aam S. Rusydiana and Solihah S. Rahayu (2019), who employed a SWOT analysis to identify both strengths and areas of strategic focus for cash waqf development in Indonesia. Their proposed priorities include: (a). Enhanced transparency and accountability mechanisms. (b). Professional development for *nazhir*. (c). Creative and data-driven marketing strategies. (d). Regulatory support and enabling policy environments. (e). Establishment of waqf-focused educational institutions. (f). Integration of digital technology and management systems. (g). Continuous data updating and validation. This multifaceted framework aligns with broader goals of institutional reform and capacity building in Islamic social finance.

3. The ICWME-I Model, A Case from Malaysia

A relevant international model is the Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) proposed by Mohamed Asmy et al. (2016) in Malaysia. Their model addresses the financial exclusion of microenterprises and proposes a waqf-based investment approach as an alternative source of capital.

In the ICWME-I model, cash waqf funds are collected from individuals or corporations (including via CSR contributions) and managed by a dedicated Cash Waqf Institution (CWI), acting as a *mutawalli* (trustee and fund manager).

Through investment contracts such as Musharakah Mutanaqisah, CWI engages in joint ventures with microenterprises, allowing gradual transfer of ownership while providing asset-backed financing. The model emphasizes low-risk investment, no collateral requirements, and inclusivity. It fosters economic empowerment, creates employment, and offers a structured pathway to poverty alleviation through asset ownership.

The ICWME-I model also integrates corporate philanthropy, positioning cash waqf as a tool for channeling CSR into impactful, sustainable development. The framework bridges social impact, Islamic ethics, and financial intermediation.

4. The Amerta Waqf Model, Case Study from Indonesia

Another innovative implementation is the Amerta Waqf Program by Universitas Airlangga (Muammar & Syadid, 2020), which channels cash waqf into a professionally managed investment portfolio. The program distinguishes between two asset classes: (a). Financial instruments: managed by certified asset managers (including Islamic deposits, sukuk, waqf-linked sukuk, sharia mutual funds, and Islamic equities). (b). Tangible and intangible assets: managed by Airlangga Holding Company (including real estate, intellectual property, and equipment)

The investment returns are divided, (a). 70% allocated to support scholarships, faculty development, research, and community outreach. (b). 30% reinvested to grow the corpus fund.

This model illustrates the viability of university-based waqf systems as hybrid platforms for social, intellectual, and financial capital development. It also demonstrates how productive waqf can support higher education financing and reduce dependency on limited public education budgets.

5. Toward a Scalable Ecosystem

Collectively, these models indicate that cash waqf has matured into a flexible, scalable, and impactful Islamic social finance instrument. However, to optimize its full potential, several enabling factors must be addressed:

- Policy integration with national development plans
- Data standardization and validation across waqf institutions
- Public education and awareness campaigns
- Waqf investment regulation consistent with Islamic legal principles
- Interdisciplinary collaboration between academia, industry, and policymakers

These elements are essential to transforming cash waqf from charitable intent into an instrument of economic transformation, particularly in developing Muslim-majority countries.

e. Optimizing Cash Waqf Through Production Theory

In classical economic theory, a firm is assumed to operate in a manner that maximizes profit by adjusting the scale of production. Profit maximization occurs when the difference between total revenue and total cost reaches its peak. This implies that the firm will determine the optimal composition of input factors (such as labor, capital, land, and entrepreneurship) to produce goods or services at minimum cost and maximum output (Sukirno, 2016).

The production function, in its standard form, expresses the quantitative relationship between inputs and outputs:

Q=f(K,L,M,…)(1.1)Q = f(K, L, M, \ldots) \tag{1.1}

Where:

- QQ = total output
- KK = capital (machinery and equipment)
- LL = labor
- MM = raw materials

For simplification, economists often reduce the function to focus on two key inputs:

Q=f(K,L)(1.2)Q = f(K, L) \tag{1.2}

This foundational model helps determine how output levels can be increased or optimized through efficient input allocation. Firms make decisions on the marginal productivity of each input and its corresponding cost to achieve cost minimization and output maximization (Nicholson, 2002).

1. Production Function Adaptation for Cash Waqf

The production function can be adapted to the context of cash waqf management, where the objective is not private profit but maximization of social returns and impact. We define a Waqf Production Function as:

WT=f(P,N,M,…)(1.3)WT = f(P, N, M, \ldots) \tag{1.3}

Where:

- WTWT = output or added value of cash waqf (per period)
- PP = potential of national cash waqf (financial resources)
- NN = capacity and professionalism of *nazhir* (waqf managers)
- MM = engagement of the Muslim community (as donors and beneficiaries)

The model highlights that the optimization of cash waqf is dependent on the interaction of available financial resources (*P*), managerial effectiveness (*N*), and community participation (*M*). However, for modeling simplicity, we can reduce the function as:

WT=f(P,N)(1.4)WT = f(P, N) \tag{1.4}

This implies that maximizing the impact of cash waqf relies principally on two factors: (1) The available waqf potential (estimated up to IDR 3 trillion annually in Indonesia), and (2) The efficiency and credibility of *nazhir* institutions.

2. Strategic Implications for Optimizing Cash Waqf

To increase the value output of cash waqf, it is critical to strengthen institutional capacity, particularly by professionalizing *nazhir* and integrating them into a structured human resource ecosystem similar to financial professionals. The following strategic steps are proposed:

- Nazhir Recruitment Program: Establish a national selection system targeting Indonesia's best graduates.
- Formal Education Tracks: Develop a dedicated academic program in *Cash Waqf Management* at institutions such as Sekolah Tinggi Akuntansi Negara (STAN) under the Ministry of Finance.
- Professional Certification & Training: Implement rigorous certification standards for *nazhir*, equivalent to financial advisors or investment managers.
- Government-funded Pilot Projects: Launch a publicly funded demonstration project to train and employ full-time, salaried *nazhir*.
- Creation of a Centralized Waqf Management Entity: Consider establishing a *National Nazhir Institution* under the Ministry of Finance, in partnership with Badan Wakaf Indonesia (BWI).

These measures aim to transform *nazhir* into professional waqf managers with competence in investment management, governance, and ethical finance. Over time, this would enhance trust, transparency, and maximize the social return on cash waqf investments.

3. Policy Proposal: From Ideation to Implementation

Given the latent potential of cash waqf in Indonesia, its optimization should be embedded within national Islamic finance strategy. Government involvement is essential at early stages to:

- Provide initial funding for recruitment, training, and salaries of professional *nazhir*
- Design institutional infrastructure (education, certification, legal frameworks)
- Encourage public trust through transparency, reporting, and communication
- Facilitate waqf-linked investment via sukuk, sharia mutual funds, or real asset portfolios

This model moves beyond passive waqf collection to active waqf development, generating a self-sustaining ecosystem of empowerment through education, healthcare, and economic inclusion—aligned with the objectives of maqashid al-shari'ah and the Sustainable Development Goals (SDGs).

CONCLUSIONS

This study has explored the multidimensional framework for optimizing cash waqf (*waqf al-nuqud*) in Indonesia by integrating classical Islamic concepts, behavioral theory, structural modeling, and production economics. The findings reveal that:

1. Waqf is a voluntary and perpetual act of philanthropy deeply rooted in Islamic jurisprudence, with vast potential to support sustainable social development.
2. Cash waqf, particularly, has emerged as a flexible and inclusive instrument capable of mobilizing public funds for education, healthcare, and poverty alleviation — provided it is managed transparently and professionally.
3. The theory of diminishing marginal utility supports the ethical imperative of wealth redistribution through charity, aligning individual welfare with collective benefit.
4. Structural models such as ISM and SWOT, as well as case studies from Malaysia (ICWME-I) and Indonesia (Waqf Amerta), demonstrate scalable frameworks for effective waqf implementation.
5. The adaptation of production theory reveals that cash waqf performance can be modeled and optimized through two key variables: potential capital (P) and managerial quality (N) — represented by the professionalism of *nazhir* institutions.

These insights suggest that the success of Indonesia's cash waqf sector hinges not merely on religious sentiment, but on institutional innovation, human capital development, and systematic governance.

Recommendations

To maximize the potential of cash waqf as a pillar of Islamic social finance in Indonesia, the following policy and institutional measures are recommended:

1. Professionalization of Nazhir Institutions
Establish national standards for recruitment, training, certification, and remuneration of *nazhir*, akin to financial professionals (e.g., bankers and investment managers).
2. Government-Funded Pilot Programs
Launch a state-sponsored *Professional Nazhir Program* under the Ministry of Finance, with collaboration from Badan Wakaf Indonesia (BWI), to demonstrate scalable management models.
3. Integration into National Education and Finance Systems
Develop academic programs in Cash Waqf Management at institutions like STAN to build long-term managerial capacity and embed waqf in the national Islamic finance infrastructure.
4. Transparent Governance and Digital Infrastructure
Promote Good Waqf Governance by ensuring transparency, regular auditing, and public reporting through digital platforms and centralized databases.
5. Public Awareness and Mobilization
Launch nationwide campaigns to raise awareness about the economic and spiritual benefits of cash waqf, targeting the Muslim middle class as potential donors.
6. Strategic Alliances with Corporate Sector
Encourage corporate contributions via CSR frameworks, positioning cash waqf as a channel for ethical investment and social impact.

By implementing these strategies, Indonesia can transform cash waqf from a symbolic act of giving into a systematic engine of economic empowerment, aligned with the goals of *maqāṣid al-sharīʿah* and national development priorities.

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