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Institutional Governance and the Development Financing Role of Productive Waqf: Evidence from Indonesia

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Abstract

Purpose — This study examines how institutional governance enables productive waqf to function as a development financing instrument in Indonesia. Building on institutional economics, it argues that waqf productivity depends on governance quality rather than asset availability alone.
Design/methodology/approach: This qualitative study uses a systematic literature review and document analysis of academic publications, regulatory documents, institutional reports, financial statements, and waqf management documents. An illustrative Dompet Dhuafa case enriches the empirical context. Five governance dimensions were analyzed: transparency, accountability, institutional capacity, regulatory support, and nazhir professionalism, using thematic analysis and source triangulation.
Findings: Institutional governance emerges as a primary mechanism linking waqf asset management to development financing. The five governance dimensions strengthen information access, oversight, compliance, resource management, and asset productivity. Digital governance reinforces these mechanisms through improved information access, transaction traceability, monitoring, and accountability. Comparative lessons from Malaysia and Türkiye emphasize regulatory coordination, professional management, administrative standardization, and institutional integration.
Originality/value: This study positions institutional governance as a primary mechanism transforming waqf assets into development financing by integrating five governance dimensions within an institutional economics framework and positioning digital governance as a reinforcing mechanism.
Research implication/limitation: Strengthening productive waqf requires clearer institutional roles, stronger regulatory supervision, standardized reporting, professional *naẓīr* development, and integration with Islamic financial institutions and digital systems. Reliance on secondary data and an illustrative case limits generalizability and causal inference.

***Keywords**:* productive waqf, institutional governance, development financing, *nazhir* professionalism, digital governance, institutional economics.
JEL Classifications: D02, G23, O17, O31, Z12

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1. Introduction

Waqf has historically served as an important socio-economic institution within Muslim societies (Elmahgop et al., 2025). Beyond its religious significance, waqf functions as a mechanism for redistributing wealth and providing public goods for the community (Musa et al., 2025). Throughout Islamic history, waqf institutions supported various sectors such as education, healthcare, public infrastructure, and social welfare (Ayub et al., 2024). In contemporary economic discussions, waqf has gained renewed attention as a potential instrument of Islamic social finance capable of supporting sustainable development (Medias et al., 2021). As governments seek alternative financing mechanisms for development programs, waqf is increasingly considered a viable institutional arrangement for mobilizing social capital and strengthening inclusive economic development (Kasdi et al., 2022).

Indonesia possesses one of the largest waqf potentials in the world due to its large Muslim population and strong philanthropic traditions (Masruroh et al., 2024). According to the Indonesian Waqf Board, the country has hundreds of thousands of waqf land locations with an estimated economic value reaching trillions of rupiahs (Indonesia, n.d., 2019). Despite this enormous potential, the contribution of waqf to national economic development remains relatively limited. Most waqf assets are allocated to non-productive uses such as mosques, cemeteries, and religious facilities. While these uses are socially beneficial, they rarely generate sustainable economic returns that could contribute to broader development financing.

Consequently, the concept of productive waqf has emerged as a key innovation in contemporary waqf management. Productive waqf refers to the management of waqf assets in ways that generate continuous economic benefits while preserving the principal asset (Rahman & Nur Aisyah Putri, 2026). Through productive management, waqf assets can support income-generating activities such as commercial property development, agricultural projects, and waqf-based enterprises (Sudrajat & Imronah, 2023). The revenue generated from these activities can then be utilized to finance social programs and development initiatives (Rofai et al., 2016). Therefore, productive waqf has significant potential to function as an alternative source of financing for economic development in Indonesia.

The increasing interest in Islamic social finance has further strengthened the relevance of productive waqf in national development strategies (Abdul Khalim & Wan Yusoff, 2025). In recent years, the Indonesian government and financial institutions have introduced several initiatives aimed at integrating waqf into broader development financing frameworks (Janom & Norjansalika, 2019). Programs such as Cash Waqf Linked Sukuk (CWLS) demonstrate how waqf can be mobilized to support infrastructure development and social programs (Hasbulah et al., 2026). Then, the effectiveness of these initiatives largely depends on the governance structure of waqf institutions.

Governance plays a central role in determining the effectiveness of economic institutions (Jafar et al., 2025). From an institutional economics perspective, governance mechanisms are essential for ensuring transparency, accountability, and efficiency in resource management. In the context of waqf institutions, governance determines how assets are managed, invested, and distributed for public benefit. Weak governance systems

often lead to inefficient asset utilization, limited financial sustainability, and reduced public trust. Conversely, strong governance frameworks can enhance credibility and economic performance.

Despite the increasing attention to productive waqf, governance challenges remain a major obstacle in Indonesia. Many waqf institutions still operate with limited managerial capacity, weak financial reporting systems, and inadequate institutional coordination. These challenges hinder the transformation of waqf assets into productive economic resources and limit their contribution to development financing (AlNemer, 2022). Although previous studies have explored the economic potential of waqf, financing instruments (Kahf, 1999) and legal frameworks (Zainal & Lupitasari, 2017), limited attention has been given to the governance mechanisms that enable productive waqf institutions to function effectively as development financing instruments (Jaharudin, 2025). This indicates a critical gap in the literature, particularly in explaining how governance structures influence the capacity of waqf institutions to mobilize resources for economic development in Indonesia.

This study makes a theoretical contribution by positioning institutional governance as the primary mechanism for transforming sub-optimally managed waqf assets into a source of sustainable development financing. Unlike previous studies that largely focused on legal, philanthropic, fundraising, and financial aspects, this research explains how transparency, accountability, *naẓīr* professionalism, institutional capacity, and digital governance collectively enhance the productivity of waqf assets. The study's primary novelty lies in developing the nexus between institutional governance and digital transformation. Within this framework, digital transformation serves as an institutional mechanism that strengthens transparency, transaction traceability, oversight, accountability, and stakeholder coordination. Digital systems for reporting, payment, and financial management can improve information access while enhancing management efficiency.

Meanwhile, fintech and blockchain offer the potential to strengthen resource mobilization, record-keeping integrity, transaction traceability, and information verification. These mechanisms can reduce information asymmetry, transaction costs, and oversight costs, while strengthening relationships among *naẓīr*, *waqifs* (donors), beneficiaries, regulators, and Sharia financial institutions. However, technology does not automatically yield effective governance; its success remains contingent upon institutional capacity, data quality, *nazhir* competence, regulatory support, and accountability mechanisms. Thus, from an institutional economics perspective, digital transformation is positioned as an institutional capability that reinforces governance, thereby boosting waqf asset productivity and expanding its contribution to development financing.

This study builds upon institutional economics literature, which positions institutions, rules, governance, and organizational capacity as critical factors in economic performance. North emphasized the role of institutions in reducing uncertainty; Williamson explained the importance of governance in controlling transaction costs; and Ostrom highlighted rules, coordination, monitoring, and institutional mechanisms in the management of common-pool resources. These perspectives help explain why the economic potential of waqf does not always correlate directly with the productivity of its assets. While existing waqf literature has extensively covered legal frameworks, economic potential, fund mobilization, Islamic

social finance, financial innovation, and productive waqf, studies on governance have focused on transparency, accountability, donor trust, nazhir professionalism, and oversight.

However, governance is often treated merely as a supporting factor rather than a primary institutional mechanism explaining the transformation of waqf assets into sources of development financing. This study addresses that gap by integrating transparency, accountability, nazhir professionalism, institutional capacity, and digital governance within an institutional economics framework to explain how governance mitigates information asymmetry and transaction and monitoring costs, fosters trust, and optimizes waqf assets. This perspective is reinforced through a comparison between Malaysia and Türkiye. Malaysia demonstrates the importance of coordination among waqf authorities, financial institutions, and regulatory bodies in professionalizing and mobilizing assets, whereas Türkiye highlights the significance of the state's institutional role, management standardization, and the integration of waqf into the economic structure. This comparison aims not to replicate models, but to identify institutional mechanisms adaptable to the Indonesian context.

This comparative synthesis offers several lessons for Indonesia: the need for a clear division of roles among regulators, the Indonesian Waqf Board (BWI), *naẓīr* (waqf managers), and financial institutions; the strengthening of *naẓīr* competencies through professional standards, monitoring, and measurable reporting; the integration of waqf into the Sharia financial system via regulations and coordination that support asset productivity without compromising waqf principles and objectives; and the positioning of digital transformation as an element of institutional governance to enhance transparency, traceability, and accountability. Building on this synthesis, the study goes beyond merely reiterating the importance of governance for waqf; instead, it develops an institutional explanation of how governance functions to transform waqf assets into a source of development financing. By integrating institutional economics theory, waqf governance, international comparisons, and digital transformation, the study offers an integrated perspective on the institutional factors determining waqf productivity in Indonesia, positioning digital governance as a reinforcing institutional mechanism that strengthens the linkages between regulatory structures, *naẓīr* capacity, asset management, waqf productivity, and development financing outcomes.

2. Literature Review

2.1 Institutional Economics and Waqf Governance

Institutional Economics provides a theoretical foundation for explaining how governance influences the performance of economic and social institutions. North (1990) explains that institutions consist of formal rules, informal norms, and enforcement mechanisms that govern human interaction and reduce uncertainty in economic activities. Thus, economic performance is determined not only by the availability of resources but also by the quality of the institutions governing their utilization. From this perspective, governance mechanisms shape incentives, regulate behaviour, and determine organizational effectiveness. Consequently, the success of productive waqf depends not

merely on the volume of assets endowed, but also on the quality of the institutional environment governing their management.

A central proposition of Institutional Economics is that effective institutions can reduce transaction costs and enhance the efficiency of resource (Williamson, 2000). Transaction costs arise from factors such as information asymmetry, monitoring difficulties, contractual uncertainty, and coordination issues among stakeholders. In philanthropic institutions like waqf, these issues can hinder the productive use of assets and erode public trust (Williamson, 2000). Therefore, governance serves as a crucial instrument for mitigating inefficiencies and improving institutional performance. Transparent reporting systems, accountable decision-making, and effective oversight can bridge information gaps and bolster the confidence of waqif, beneficiaries, regulators, and other stakeholders.

The relevance of Institutional Economics to waqf governance lies in the relationship between institutional quality and development outcomes. North (1990) demonstrates that institutional quality influences an organization's capacity to generate sustainable economic benefits. In the context of productive waqf, this perspective indicates that development contributions are determined not solely by asset ownership, but by the effectiveness of the institutional arrangements managing those assets. Productive waqf requires mechanisms capable of transforming currently unproductive assets into revenue streams that support social welfare and economic development. Thus, the quality of governance is a crucial factor determining the ability of waqf institutions to achieve their socio-economic objectives.

Ostrom (2005) also emphasizes the importance of institutional arrangements in the management of common-pool and collective resources. Although waqf possesses legal characteristics distinct from common-pool resources, both require governance mechanisms that ensure sustainability, accountability, and long-term management (Zawawi, 2023). Waqf assets are intended to generate benefits sustainably across generations; thus, governance is essential to preserve asset value while maximizing social benefits. Weak governance can lead to asset neglect, inefficient utilization, and a decline in public trust. Conversely, effective governance creates conditions that foster institutional sustainability and the ongoing distribution of benefits.

In the waqf sector, governance encompasses the structures, processes, and mechanisms used to manage, monitor, and develop waqf assets (Abd Halim Mohd Noor et al., 2014). Previous research indicates that transparency, accountability, and professionalism are key dimensions of effective waqf governance (Shaikh et al., 2017; Zawawi et al., 2023). Transparency broadens access to information and strengthens stakeholder trust; accountability ensures compliance with legal and ethical obligations; and professionalism enhances managerial capacity regarding asset development and investment decision-making (Çizakça, 1998). Together, these three dimensions strengthen institutional performance and the ability of waqf institutions to mobilize resources for sustainable development.

2.2 Productive Waqf Governance and Economic Development

Waqf has long been recognized as a significant instrument of Islamic philanthropy capable of supporting social welfare and economic development. Historically, waqf institutions played a crucial role in financing public goods such as education, healthcare, and infrastructure in Muslim societies (Ibrahim et al., 2020). Kahf (1999) emphasized that waqf represents a sustainable economic institution that enables the continuous provision of social services without relying on state funding. In contemporary economic discourse, waqf is increasingly positioned as a core component of Islamic social finance alongside zakat, Islamic microfinance, and charitable waqf, all of which aim to promote inclusive economic growth and reduce poverty through redistributive mechanisms (Kahf, 1999).

Recent studies further highlight the potential of waqf in supporting economic development. Qurrata et al. (2024) argue that waqf institutions can mobilize long-term resources to finance sustainable development projects, while Ascarya (2024) emphasizes the complementary role of Islamic social finance in addressing development challenges. These perspectives suggest a growing consensus that waqf can function as an alternative source of development financing. However, such potential is contingent upon the ability of waqf institutions to generate sustainable income from endowed assets.

The concept of productive waqf has therefore emerged as a key innovation in modern waqf management (Napitupulu et al., 2024). Unlike traditional practices that primarily focus on religious facilities, productive waqf emphasizes the economic utilization of assets to generate continuous financial returns. Çizakça (1998) and Mohsin (2016) argue that productive waqf enables the transformation of endowed assets into income-generating investments that sustain social programs over time (Çizakça, 1998; Mohsin et al., 2016). Empirical studies also support this view, indicating that well-managed waqf institutions can contribute to poverty alleviation and community development through sustainable financing mechanisms.

Despite this growing body of literature, the effectiveness of productive waqf management is highly dependent on governance structures (Shaikh et al., 2017). Governance refers to the mechanisms through which institutions are directed, controlled, and held accountable (Purnamasari et al., 2024). From an institutional perspective, governance plays a crucial role in determining the efficiency of resource allocation and the sustainability of economic institutions. In the context of waqf, governance structures determine how assets are managed, invested, and distributed. Effective governance practices—particularly transparency, accountability, and professional management—have been shown to enhance institutional credibility and performance.

A key element within waqf governance is the role of *naẓīr* as the manager of waqf assets. The professionalism of *naẓīr* is essential for ensuring both the sustainability and productivity of waqf assets (Zahro' et al., 2025). As noted by Sadeq (2002), effective management requires not only religious knowledge but also managerial and financial competencies. Without adequate professional capacity, waqf assets may remain idle or underutilized. Thus, strengthening the managerial capabilities of *naẓīr* is a critical factor in improving the performance of waqf institutions (Zawawi et al., 2023).

In the Indonesian context, several studies highlight persistent governance challenges in waqf management (Musa et al., 2025). Many waqf institutions continue to rely on traditional practices that lack transparency and financial accountability (Kamaruzaman & Ishak, 2023). Weak governance structures often result in inefficient asset utilization and limited economic productivity. Additional challenges include limited managerial capacity, weak regulatory enforcement, and inadequate financial reporting systems (Pitchay et al., 2018). These constraints hinder the ability of waqf institutions to transform their assets into productive economic resources and contribute effectively to national development.

Recent policy initiatives, such as the introduction of Cash Waqf Linked Sukuk (CWLS), demonstrate efforts to integrate waqf into the national financial system (Lubis & Marpaung, 2025). These initiatives indicate the potential for large-scale mobilization of waqf funds to support infrastructure and social development programs. However, the effectiveness of these initiatives remains highly dependent on the governance capacity of waqf institutions. Without strong governance mechanisms, the potential benefits of such financial innovations cannot be fully realized.

International comparisons demonstrate that the effectiveness of waqf governance is influenced by the integration of regulatory oversight, reporting standards, and the professionalism of administrators within the institutional framework. Malaysia employs an institutionalized management model, utilizing State Islamic Religious Councils for oversight and administration. Türkiye benefits from a strong institutional tradition characterized by state involvement and structured mechanisms. In contrast, while Indonesia possesses a regulatory framework—comprising the Waqf Law and the Indonesian Waqf Board—its implementation remains hindered by institutional fragmentation, varying capacities among *naẓīr* (administrators), and inconsistent reporting practices. These differences illustrate that the mere existence of regulations is insufficient; effective governance relies heavily on the synergistic interplay between regulations, oversight, reporting standardization, and administrative capacity.

Table 1. Comparative Analysis of Waqf Governance in Indonesia, Malaysia, and Türkiye

Governance Dimension	Indonesia	Malaysia	Türkiye	Institutional Lessons for Indonesia
Regulatory Oversight	Has a national framework through Law No. 41 of 2004 and the Indonesian Waqf Board (BWI). However, oversight and coordination remain fragmented among multiple actors with varying institutional capacities.	Waqf management operates within the structure of State Islamic Religious Councils, providing more structured authority and oversight at the state level.	Has a strong institutional tradition of waqf administration, with significant state involvement and relatively structured administrative arrangements.	Indonesia needs to strengthen coordination among regulators, BWI, and nazhirs, while clarifying the distribution of authority and oversight mechanisms.

Reporting Standards and Accountability	Reporting requirements have been established, but the implementation of standards and the quality of transparency vary across institutions.	More institutionalized management supports a more systematic administrative and accountability system.	A strong tradition of waqf administration supports more structured asset recording and management.	Indonesia needs to strengthen reporting standardization, asset transparency, auditing, and access to information for waqifs and other stakeholders.
Professionalism of Waqf Managers / Nazhirs	Nazhir professionalism is developing, but managerial, investment, risk management, and asset development capacities remain uneven.	A more formal institutional structure supports capacity building and specialization among waqf managers in waqf administration.	Waqf management has a long-standing administrative and institutional tradition involving formal institutions.	Indonesia needs to strengthen certification, competency development, specialization, and capacity building for nazhirs in asset management, investment, risk management, and technology.
Implications for Productive Waqf	The country possesses substantial waqf asset potential, but productivity remains constrained by uneven institutional capacity and governance quality.	A more organized governance structure supports the systematic mobilization and development of waqf assets.	Institutional experience demonstrates the importance of integrating waqf management with broader economic and administrative structures.	Enhancing the productivity of waqf in Indonesia requires integration among regulation, oversight, reporting, nazhir professionalism, and asset development.

Sources: (Himmawan et al., 2025; Lubis & Marpaung, 2025; Priyadi et al., 2023)

A comparison of the three countries reveals that the quality of governance institutionalization is more decisive than the mere existence of regulations. Malaysia emphasizes structured institutional authority and coordination, while Türkiye has developed its waqf administration through the involvement of formal institutions and strong management traditions. Although Indonesia possesses the necessary regulatory foundation and formal institutions, it still needs to strengthen supervisory consistency, reporting standardization, and the capacity of *naẓīr*. Indonesia need not replicate these models exactly but can adapt institutional mechanisms that align with the characteristics of its national waqf system.

Indonesia needs to clarify the division of roles among regulators, the Indonesian Waqf Board (BWI), *naẓīr*, and financial institutions; strengthen reporting standards and accountability; and enhance the professionalism of *naẓīr* (Ascarya et al., 2022). Regulations establish rules, supervision ensures compliance, reporting mitigates information asymmetry, and *naẓīr* professionalism boosts asset productivity. Integrating these mechanisms can reduce transaction costs and strengthen the mobilization and development of waqf assets.

On this basis, this study positions governance as the primary institutional mechanism linking waqf asset management with development financing. It highlights the roles of transparency, accountability, and *naẓīr* professionalism in enhancing institutional

performance and resource mobilization. Consequently, the study views productive waqf as an economic institution capable of supporting sustainable development financing through effective governance.

3. Methodology

This study adopts a qualitative research design using an institutional analysis approach (Ayton et al., 2023). The research is based on a systematic literature review and document analysis, complemented by an illustrative case to enrich contextual understanding of productive waqf governance in Indonesia.

Relevant academic publications on waqf governance, productive waqf, and Islamic social finance were collected from databases such as Scopus, Web of Science, and Google Scholar (Ayton et al., 2023). The literature selection followed a systematic process consisting of three stages: (1) identification of relevant keywords such as "productive waqf", "waqf governance", and "Islamic social finance"; (2) screening of abstracts to ensure relevance to governance and development financing; and (3) inclusion of peer-reviewed articles and institutional reports related to waqf management in Indonesia.

The data used in this study consist primarily of secondary data obtained from academic and institutional sources (Merriam, 1988) including journal articles, books, policy documents, and official reports. Institutional publications from the Indonesian Waqf Board (BWI), Bank Indonesia, and other relevant organizations are also utilized to provide insights into the development of productive waqf management and its role in development financing (BI et al., 2018; Depag, 2007; R.I., 2004).

This study uses Dompet Dhuafa as an illustrative case to strengthen the empirical context of productive waqf management in (El-Bantanie, 2024; Lestari et al., 2023). The researchers selected Dompet Dhuafa due to the organization's experience in managing waqf and developing productive programs across the sectors of education, health, social entrepreneurship, and community empowerment. While Dompet Dhuafa is not the primary unit of analysis, the study utilizes this case to contextualize and examine governance patterns identified through the analysis of literature and documents.

The researchers operationalized five governance dimensions into document-based evaluation indicators or Key Performance Indicators (KPIs), namely transparency, accountability, institutional capacity, regulatory support, and *naẓīr* professionalism. Transparency was assessed based on the availability, accessibility, regularity, and completeness of information regarding assets, programs, financial activities, and organizational performance. Accountability was evaluated through financial reporting, audits, oversight mechanisms, compliance, and stakeholder reporting. Institutional capacity was assessed via organizational structure, monitoring systems, human resource capacity, and resource management capabilities. Regulatory support was evaluated based on compliance with waqf regulations, oversight mechanisms, reporting obligations, and coordination with regulators. Finally, *naẓīr* professionalism was assessed through managerial competence, competency development, financial and investment capabilities, and the ability to develop productive waqf assets.

Table2. Governance Evaluation Indicators

No	Dimension	Indicators/KPIs	Documentary Evidence
1	Transparency	Availability, accessibility, regularity, and completeness of information	Annual reports, waqf reports, financial statements, official websites
2	Accountability	Financial reporting, auditing, oversight, compliance, and accountability mechanisms	Audit reports, governance reports, internal policies
3	Institutional Capacity	Organizational structure, human resources, monitoring, and resource management	Organizational documents, institutional reports, strategic plans
4	Regulatory Support	Compliance, oversight, reporting, and coordination with regulatory authorities	Regulations, policies, regulatory documents
5	Nazir Professionalism	Competence, training, and financial and investment capabilities	Managers' profiles, HR reports, training documents

Sources: Researcher Illustration 2026.

The researcher conducted a thematic analysis in three stages. First, the researcher coded the literature, regulatory documents, institutional reports, financial statements, and Dompet Dhuafa's documents based on the aforementioned five dimensions and indicators (Huda et al., 2025). Second, the researcher grouped the coding results and assessed the presence, consistency, completeness, and institutionalization of each indicator. Third, the researcher compared evidence across sources to identify patterns, alignments, and discrepancies. The researcher then applied source triangulation by comparing academic literature, regulatory documents, institutional reports, financial statements, and case evidence.

The researcher employed qualitative thematic analysis to interpret the coding and triangulation results (Maguire & Delahunt, 2017). The researcher analyzed the five governance dimensions as interconnected mechanisms influencing institutional performance and resource mobilization capabilities. From an institutional economics perspective, the researcher also identified how these mechanisms could mitigate information asymmetry, transaction costs, monitoring difficulties, and coordination issues. The analysis results subsequently elucidate the relationships among governance, waqf asset productivity, and the contribution of productive waqf to development financing.

4. Results and Discussions

4.1 The Potential of Productive Waqf in Financing Economic Development in Indonesia

The findings indicate that productive waqf has significant potential to function as an alternative mechanism for development financing; however, this potential is conditional upon the presence of effective governance structures. From an institutional perspective, waqf represents a unique economic arrangement in which the principal asset is preserved while its returns are continuously allocated for public benefit. This characteristic positions waqf as a sustainable financing instrument capable of supporting long-term development initiatives.

The emergence of productive waqf reflects a strategic shift from traditional, consumption-oriented utilization toward income-generating asset management. In this context, waqf is no longer viewed solely as a religious endowment, but as a productive economic resource capable of generating sustainable financial returns. These returns can be reinvested into social programs, thereby linking philanthropic capital with development financing outcomes. This transformation highlights the importance of institutional mechanisms in converting potential into measurable economic impact.

Despite Indonesia's substantial waqf assets, both in scale and economic value their contribution to development financing remains limited. The dominance of non-productive allocations indicates a structural inefficiency in asset utilization (Ihsan & Ayedh, 2015). From an institutional economics perspective, this reflects a misalignment between resource waqf and governance capacity. In other words, the issue is not the lack of resources, but the inability of institutions to manage them productively.

Indonesia possesses immense potential for productive waqf, yet this potential has not yet been fully translated into development financing. Various sources estimate Indonesia's cash waqf potential at over IDR 180 trillion annually, while the majority of waqf assets continue to face challenges regarding productivity and management. Research findings indicate that this gap stems not only from asset limitations but also from the quality of governance, which determines an institution's capacity to mobilize, develop, and preserve the value of waqf assets. The governance framework in this study links transparency, accountability, *naẓīr* professionalism, institutional capacity, and regulatory support to asset productivity and development financing.

Evidence from Dompet Dhuafa reinforces this relationship. Dompet Dhuafa routinely publishes annual and waqf reports and provides audited financial statements, thereby offering concrete evidence of institutional transparency and accountability. Dompet Dhuafa's public reports indicate that in 2024, the organization distributed IDR 418.21 billion to approximately 3.26 million beneficiaries, achieving an absorption rate of 115%. Regarding productive waqf, the management of educational assets—such as Al Syukro Universal Islamic College, Khadijah Learning Center, SMART School Cibinong, and STIM Budi Bakti—generated a surplus of IDR 2.934 billion in 2024, which was subsequently allocated to expand social impact. These data demonstrate that waqf assets can generate financial returns that are then channeled toward social objectives. However, this study does not infer a causal relationship based on a single case; rather, the data serve as empirical evidence supporting the governance mechanisms outlined in the research framework.

Digital governance strengthens these mechanisms by reducing monitoring costs, accelerating information exchange, and enhancing transaction traceability. Dompet Dhuafa provides digital channels for waqf that record transactions, verify payments, and notify waqifs. This system helps reconcile transactions with banking data and mitigates the risk of unrecorded transactions. Dompet Dhuafa also utilizes digital applications that allow donors to view transaction details and program impact reports, thereby bolstering transparency and access to information. Furthermore, Dompet Dhuafa has developed CWLS (Cash Waqf Linked Sukuk) as a cash waqf instrument within a digital ecosystem that links waqf mobilization with Sharia-compliant investment instruments.

These findings clarify the mechanisms within the Governance Framework: transparency reinforces information and trust; accountability strengthens oversight; professionalism

enhances asset management capabilities; and digital governance reduces monitoring costs and information asymmetry. The combination of these mechanisms helps reduce structural inefficiencies and enhances the capacity of productive waqf to generate economic and social benefits. Thus, governance serves not merely as a supporting condition but as a mechanism linking institutional quality, asset productivity, and development financing.

The economic potential of productive waqf in Indonesia is substantial. According to data from the Indonesian Waqf Board (BWI), Indonesia possesses hundreds of thousands of waqf land locations with an estimated asset value reaching thousands of trillions of rupiah. In addition, several studies estimate that the annual potential of cash waqf could reach more than IDR 180 trillion if effectively mobilized. These figures indicate that waqf represents one of the largest untapped sources of Islamic social finance in the country. However, only a relatively small proportion of these assets is currently managed productively, highlighting a significant gap between existing potential and actual developmental contribution.

If managed through productive investment schemes, waqf assets could provide a sustainable source of financing for various development sectors. Revenue generated from commercial properties, agricultural ventures, educational institutions, healthcare facilities, and waqf-based enterprises can be reinvested into social programs and public services. Unlike conventional public financing mechanisms that depend heavily on taxation or government borrowing, productive waqf offers a self-sustaining financing model in which the principal asset is preserved while its returns are continuously utilized for developmental purposes. This characteristic makes productive waqf particularly relevant for supporting long-term and inclusive development strategies.

From an Institutional Economics perspective, the existence of large waqf assets alone does not automatically generate developmental outcomes. The findings suggest that governance quality functions as the critical mechanism that transforms potential resources into actual financing capacity. In other words, the gap between waqf potential and developmental impact is primarily an institutional challenge rather than a resource constraint. Waqf institutions with stronger transparency, accountability, and professional management are more likely to attract stakeholder trust, mobilize additional resources, and maintain productive asset utilization over time. These finding highlights governance as the key factor determining whether productive waqf can effectively contribute to development financing.

Empirical evidence further confirms this gap, as only a small proportion of waqf assets are currently managed productively. This underutilization represents a lost opportunity for mobilizing long-term financing resources (Hosen et al., 2022). Without effective governance mechanisms, waqf institutions are unable to transform dormant assets into income-generating investments (Nafar, 2019). Consequently, the role of waqf in development financing remains marginal despite its substantial potential.

The integration of waqf into the broader Islamic social finance system further reinforces its strategic role in development financing (Ramdani et al., 2024). Instruments such as Cash Waqf Linked Sukuk (CWLS) demonstrate how waqf can be linked with formal financial systems to generate sustainable returns (Zawawi et al., 2023). These innovations also reveal a critical dependency on governance quality. Without transparency, accountability, and professional management, such financial instruments cannot operate effectively or sustainably.

Therefore, the findings suggest that governance is the key enabling factor that determines whether productive waqf can function as a viable development financing mechanism (Susilo et al., 2025). Strong governance structures enhance institutional capacity, improve resource allocation, and enable the mobilization of waqf assets for economic development (Ascarya, 2024). Conversely, weak governance constrains the ability of waqf institutions to contribute meaningfully to development financing.

4.2 Productive Waqf Governance from an Institutional Economic Perspective

From an institutional economics perspective, governance is not merely an administrative function, but a structural determinant of institutional performance (Fauziah, 2021; Hasan et al., 2022). Governance defines how resources are allocated, how decisions are made, and how accountability is enforced within an organization (Chang, 2023; Zawawi et al., 2023). In the context of waqf institutions, governance directly influences whether assets remain idle or are transformed into productive investments.

The findings reveal that governance mechanisms particularly transparency, accountability, and institutional supervision play a central role in shaping the effectiveness of productive waqf management (Makhrus et al., 2025; Sulistiani & Gumilar, 2025). Transparency enhances information flow and reduces uncertainty, thereby increasing stakeholder trust. Accountability ensures that waqf managers adhere to ethical and legal standards, while institutional supervision strengthens compliance and operational discipline. Together, these mechanisms form the institutional foundation necessary for sustainable waqf management.

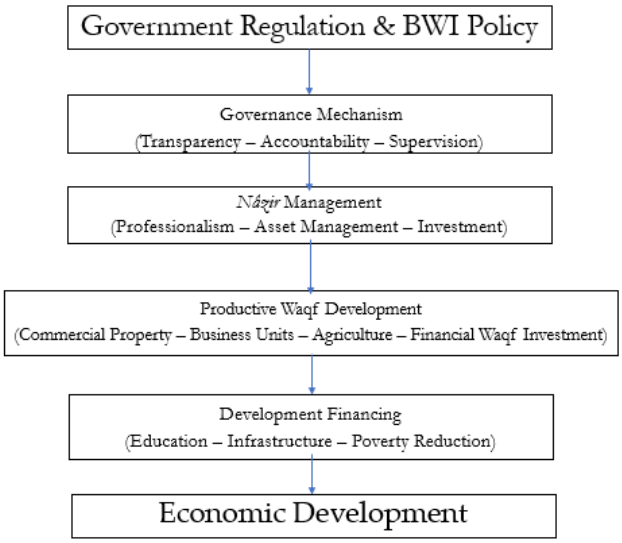

Figure 1. Governance Framework of Productive Waqf for Development Financing
Source: Researcher Illustration (2026)

Moreover, governance functions as a mechanism for strengthening financial sustainability. When governance systems operate effectively, waqf institutions are better able to attract resources, manage risks, and maintain long-term asset productivity. This aligns with institutional theory, which suggests that well-structured governance systems reduce inefficiencies and improve economic outcomes.

The proposed governance framework (Figure 1) illustrates how governance mechanisms interact with institutional actors and regulatory structures to influence waqf performance. Regulatory support from the government and the Indonesian Waqf Board (BWI) provides the institutional foundation, while governance mechanisms shape the effectiveness of *naẓīr* management. When these elements function cohesively, waqf assets can be transformed into productive investments that generate sustainable returns.

So, the findings also reveal that governance challenges remain significant in Indonesia. Many waqf institutions still operate with traditional management practices that lack transparency and systematic reporting. This institutional weakness leads to inefficient asset utilization and limits the contribution of waqf to development financing. In this context, governance reform becomes a critical prerequisite for unlocking the economic potential of waqf.

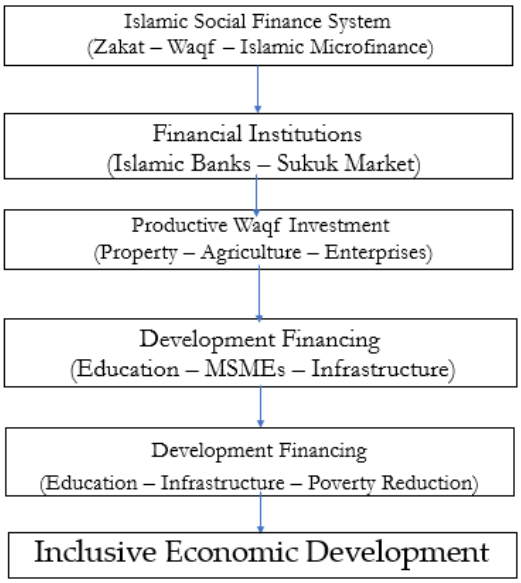

Figure 2. Integration of Productive Waqf in the Islamic Social Finance System
Source: Researcher Illustration (2026)

The integration of waqf into the Islamic social finance ecosystem (Figure 2) further demonstrates the importance of governance. Institutional collaboration between waqf institutions, Islamic banks, and government agencies can significantly enhance resource mobilization. However, such integration requires strong governance frameworks to ensure coordination, accountability, and financial integrity.

4.3 The Role of Nâzir in Optimizing Productive Waqf

The findings highlight that *naẓīr* plays a pivotal role as the operational actor in implementing governance mechanisms within waqf institutions (Nurfahmiyati et al., 2020; Wibisono et al., 2022). From an institutional perspective, the effectiveness of governance structures depends on the competence of the actors who execute them. In this regard, *nâzir* serves as both an asset manager and a development agent.

Professionalism emerges as a critical determinant of *naẓīr* performance. Effective *naẓīr* management requires not only knowledge of Islamic law, but also managerial, financial, and entrepreneurial capabilities. These competencies enable *naẓīr* to identify investment

opportunities, manage risks, and ensure the sustainability of waqf assets. Without such capabilities, governance mechanisms cannot function effectively, regardless of how well they are designed.

The findings suggest that professional *naẓīr* management directly influences the ability of waqf institutions to generate sustainable financial returns. This, in turn, determines their capacity to support development financing. In other words, *naẓīr* acts as the link between governance structures and economic outcomes.

However, the study also identifies significant limitations in the capacity of many *naẓīr* in Indonesia (Hanif et al., 2025). Limited managerial skills, lack of financial expertise, and insufficient training hinder the productive utilization of waqf assets. As a result, many waqf institutions fail to transition from traditional to productive management models.

To address these challenges, strengthening the professional capacity of *naẓīr* is essential (Abdullah, 2004). Training programs, certification systems, and institutional capacity-building initiatives can enhance managerial competence and improve asset productivity. Furthermore, collaboration with Islamic financial institutions can provide access to expertise and investment opportunities, thereby strengthening the role of waqf in development financing.

4.4 Challenges of Waqf Governance and Policy Implications

Despite its significant potential, productive waqf in Indonesia faces several governance-related challenges that limit its effectiveness as a development financing instrument (Jamal et al., 2023; Setiyowati et al., 2025). These challenges are primarily institutional in nature, reflecting weaknesses in governance structures rather than resource constraints.

First, limited institutional capacity remains a major barrier. Many waqf institutions operate with inadequate human resources and weak administrative systems, which reduce their ability to manage assets productively. Second, the lack of transparency and accountability undermines public trust and restricts resource mobilization. Without credible reporting systems, potential donors may be reluctant to contribute.

Third, regulatory fragmentation creates inconsistencies in governance practices across institutions. Weak enforcement of governance standards allows inefficient management practices to persist. Fourth, limited integration with the financial system restricts access to investment opportunities and financial expertise. This reduces the ability of waqf institutions to scale their operations and contribute to development financing. Additionally, limited financial innovation and socio-cultural perceptions further constrain the development of productive waqf. While innovations such as CWLS demonstrate potential, their adoption remains limited due to governance constraints (Yasin, 2021). At the same time, traditional perceptions of waqf as purely religious donations limit the expansion of productive models.

These findings suggest that policy reforms should focus on strengthening governance capacity as the primary strategy for optimizing waqf performance. Key policy directions include enhancing professional training for *naẓīr,* improving regulatory supervision, standardizing financial reporting systems, and promoting institutional collaboration between waqf institutions and Islamic financial institutions. Ultimately, the effectiveness of

productive waqf as a development financing instrument depends on the quality of governance. Strengthening governance is therefore not only an institutional necessity but also a strategic imperative for achieving sustainable economic development.

5. Conclusion and Recommendation

This study concludes that productive waqf has the potential to serve as a financing instrument for sustainable development, yet its effectiveness hinges on the quality of institutional governance. The analysis reveals that transparency, accountability, *naẓīr* professionalism, institutional capacity, and digital governance mutually reinforce one another in enhancing asset productivity, resource mobilization, and socio-economic benefits. These findings reinforce the institutional economics perspective, which posits that governance acts as a mechanism linking waqf asset management to development outcomes. Evidence from the Dompet Dhuafa case further demonstrates that reporting, oversight, management professionalism, and digitalization can strengthen this mechanism.

The study is limited by its reliance on secondary data and illustrative case studies, thereby failing to capture the variations in governance across different waqf organizations. Future research should test this framework through comparative case studies, surveys, or quantitative analysis. From a practical standpoint, the study recommends four measures. First, the government needs to strengthen Law No. 41 of 2004 by granting the Indonesian Waqf Board (BWI) stronger supervisory and enforcement powers, including the authority to conduct risk-based audits and impose administrative sanctions. Second, regulators should mandate the use of relevant waqf accounting standards within the Indonesian Financial Accounting Standards (PSAK) to standardize the reporting of assets, management outcomes, and benefit distributions. Third, the BWI needs to establish a national certification roadmap for *naẓīr* covering governance, accounting, Sharia-compliant investment, entrepreneurship, risk management, and digital literacy. Fourth, regulators need to develop a national digital waqf reporting and monitoring system to mitigate information asymmetry, monitoring costs, and structural inefficiencies.

Declarations

Authorship

All authors actively participated in the work and have agreed to the final version of the manuscript.

Author Contribution Statement

Khurun'in Zahro' designed the study, developed the research framework, analyzed the data, and drafted the manuscript. Mufti Afif contributed to conceptualization and critical revision, while Syahruddin contributed to data collection, analysis, and manuscript revision. Zainab binti Aman contributed to the research framework, interpretation of findings, and critical review. All authors approved the final manuscript.

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Data Availability Statement

This research relies on qualitative data collected through interviews and relevant documentary sources concerning productive waqf governance in Indonesia. In accordance with ethical considerations and confidentiality commitments to research participants and institutions, the raw interview data and other potentially identifiable materials are not publicly accessible. An anonymized version of the data may be made available by the corresponding author upon reasonable request, subject to ethical and confidentiality considerations.

Declaration of Interests Statement

The author declares that there are no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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