

## Waqf-Based Entrepreneurship Direct Financing Model: Potential and Challenges

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### Abstract

Continuous effort to strengthen the integration of Islamic commercial finance and Islamic social finance becomes salient. The use of waqf (Islamic endowment) assets for various sectors and infrastructure development, which is supported by technological advancement, can also help the economy recover, particularly in the current economic downturn caused by the Covid-19 pandemic. Unfortunately, waqf-based entrepreneurs who contribute significantly to the sustainability of waqf benefits continue to face significant difficulties in obtaining capital for the development of waqf assets. Based on a review of the existing literature and findings from the case study through in-depth interviews with selected respondents, the study aims to propose a direct financing model for waqf-based entrepreneurs by empowering affluent Muslim potentials through Islamic banks. There are five (5) fundamental criteria considered as strategic for the integration model to successfully empower waqf-based entrepreneurship in Indonesia, namely continuous literacy and education on contemporary waqf, the transformation of regulatory and management transparency, improvement of the professionalism and business capacity of the waqf-based entrepreneurs, synergy, and collaboration among stakeholders, and integrated and reliable infrastructure.

**Keywords** *integration of Islamic commercial and social finance, productive waqf, direct financing model, waqf-based entrepreneurship*

### INTRODUCTION

The Covid-19 pandemic, which lasted more than two years, caused economic slowing and the emergence of inequalities in economic recovery globally (World Bank, 2021; McKinsey, 2021), one of which is attributed to a decline in income and business closures as a result of increasingly restricted human mobility (GEM, 202; McKinsey, 2021; The World Bank, 2021). With globalization in which all countries are closely related, the lockdown policy that the Chinese Government pioneered to suppress the spread of the virus quickly harmed the wheels of the economies of other countries with a high dependence on various products from China. Other mobilization restriction policies, such as travel bans that are increasingly widespread in multiple countries, also disrupt the supply chain and shut down the tourism industry globally, creating mass unemployment (Ali and Alharbi, 2020; Hall et al., 2020).

In Indonesia, a country with a population of 271 million the pandemic has also disrupted mobility in the country's socioeconomic sector, reduced people's income, and increased the levels of unemployment and poverty (BPS, 2020; Prawoto, Purnomo, and Zahra, 2020; The World Bank, 2021). As a result of Covid-19, many businesses have shut down, forcing them to lay off a large number of employees, resulting in a high rate of unemployment in Indonesia (Coordinating Ministry for the Economy of the Republic of Indonesia, 2021). The Indonesian Central Bureau of Statistics reported 9.77 million unemployed people in August 2020, a significant increase from the previous five-year average of around 7.1 million. Further, in the worst-case scenario, Suryahadi et al. (2020) project that by the end of 2020, the poverty rate in Indonesia will have risen to 17.9%,

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with 23.4 million Indonesians falling into the poor category. This poverty is reflected in a steeper drop in per capita household spending.

Scholars agree that entrepreneurship is critical to assisting the economy's recovery from a prolonged pandemic. National economic development is also strongly intertwined with the role of the rural economy, which focuses on performance in economic, social, and market sustainability (Dhewanto *et al.*, 2020). Unfortunately, Indonesia's entrepreneurship level remains relatively low at around 3%, lagging behind peer countries such as Singapore and Malaysia, which recorded 4%. In comparison, the standard for developed countries is more than 14% of the population (Muhammad, 2019).

Apart from internal constraints for prospective entrepreneurs, one of the problems in entrepreneurship development is access to capital and financial resources to start a new business (Kamarudin and Sajilan, 2013). The findings of LPPI and data from Bank Indonesia (2015) also show that the internal problems faced by entrepreneurs in Indonesia are capital, human resources, legality, and accountability. Only 30%-40% of SMEs are bankable because of geography, manual entry administration, and lack of separation between individual and business finance. MSMEs face human resource factors, including a lack of knowledge of production technology, product quality control, market analysis, marketing strategy, and a limited workforce. MSME business actors are generally still individual legal entities. MSEs also need a better financial administration and management system.

The Indonesian government launched the National Economic Recovery Program (PEN) based on Government Regulation Number 23 of 2020, later changed to Government Regulation Number 43 of 2020, to assist the informal sector and small and medium businesses affected by the pandemic. The government also offers a credit program for MSMEs (KUR) to increase financing availability and capital strength. Furthermore, the drafting of the Job Creation Law in 2020 will encourage the transformation of the informal sector into the formal sector, as well as provide convenience, protection, and empowerment to MSMEs, thereby increasing their competitiveness (Coordinating Ministry for the Economy of the Republic of Indonesia, 2021).

In terms of business capital, the establishment of *waqf* (Islamic endowment) institutions within the Islamic public finance sector has been proposed to facilitate the collection of cash *waqf* from society and provide financing for small and medium-sized enterprises (SMEs) (Amin, 2011; Muhammad, 2011; Tohirin, 2010). Cizakca (2004) argued that using the maharajah scheme, cash *waqf* could support microfinance for entrepreneurs. Cash *waqf* has been widely used as an alternative source of funds in Muslim countries to help ease the burden on the government budget in fulfilling social projects and poverty alleviation (Hashanah, 2011; Hosseini *et al.*, 2014; Khademolhoseini, 2008; Maysita, Tasrif and Telaga, 2005; Mohamad, 2012). The use of *waqf* assets for the education sector and infrastructure development supported by technology development during a crisis such as a pandemic can also help sustain the economy (Faturrohman *et al.*, 2021). As long as donors are aware of how their contributions are used, cash *waqf* can be collected in exchange for the right to benefit from commercialized projects developed on *waqf* lands (Pitchay *et al.*, 2018).

On the other hand, according to World Bank data, the middle-class population in Indonesia has reached 52 million people and is growing faster than other groups (The World Bank, 2020). Currently, deposit accounts for the wealth segment, which is defined as premium or priority customers at Bank Syariah Indonesia, account for more than half of all individual deposits (Ramli, 2022). Similarly, Bank Muamalat, Indonesia's second-largest Islamic bank, had 6,000 customers and a total asset under management (AUM) of Rp8 trillion as of June 2020 (Astutik, 2020).

### **Research Objectives**

There is ample earlier research topic on the development of *waqf* fund collection models, one of which is through cash *waqf* as well as the formation of financing models using *waqf* funds to maintain the sustainability of *waqf* value, among others for micro-business financing, SME financing,

and also for personal financing. However, the research relating to commercial financing models specifically intended to increase the participation of affluent Muslims to directly develop and empower productive *waqf* is scanty. In addition, the proposed model in previous research involving government authorities in the field of entrepreneurship and collaboration between *waqf* institutions to support the development of *waqf*-based entrepreneurship is also still scarce.

As a result, this research aims to propose a model of integration between the Islamic commercial sector, represented by the Islamic bank, and the Islamic social sector, as represented by *waqf*-based entrepreneurs. The integration will require the active participation of the upper-middle-class Muslim community, which has a high potential for cash *waqf* collection, as well as collaborative support from established *waqf* institutions and active government assistance. To achieve the research objectives, this study attempts to answer the research questions as follows:

1. How Islamic banks can support *waqf*-based entrepreneurs?
2. How can we build a cash *waqf* financing model for the *waqf*-based entrepreneurs and what are the strategic criteria for the model?

The findings of the study will imply that all parties involved should devise appropriate strategies to encourage greater participation of Indonesian Muslims in the financing scheme for many productive *waqfs*. In turn, more utilized *waqf* assets will increase the business professionalism of *waqf*-based entrepreneurs to support massive social objectives such as wealth inequality reduction, increased employment, poverty alleviation, and the improvement of social well-being.

## LITERATURE REVIEW

### *Waqf*

The word *waqf* originates from the Arabic “*waqafa*”, meaning “to hold back” or “to stay”. Abu Hanifa, an Islamic fiqh expert, defined *waqf* as the ownership of an object that by law, must remain in *wakif* to use its benefits for virtue. The Maliki school also argues that the *wakif* is still the owner of the *waqf* object but is prohibited from relinquishing the ownership of the *waqf* property to others, is obliged to donate the benefits of the *waqf* and cannot withdraw the intention of the *waqf*. Regarding ownership, other schools such as Syafi'i and Hambali have stated that the *waqf* assets no longer belong to the *wakif* after the *waqf* pledge so the *wakif* cannot do anything to the *waqf* property and the *waqf* cannot be inherited (Badan Wakaf Indonesia, 2021).

The objective of *waqf* is to regularly extract its usufruct for the benefit of righteous and/or philanthropic goals. The fundamental value of the *waqf* asset must be preserved, either by its nature (for example, as land) or by the arrangements and conditions imposed by the *waqf* founder (Kahf, 2014). Chowdhury (2011), as well as Kahf (2014), defined three types of *waqf*: philanthropic or public *waqf*, family or private *waqf*, and religious *waqf*. Philanthropic *waqf* seeks to assist the poor by providing social services such as health and education. This type of *waqf* was established by Prophet Muhammad (PBUH) at the dawn of Islamic civilization to reduce inequality and disparity. Furthermore, *waqf* can provide a variety of services to various sectors, including health care, education, transportation, jobs, shelter, and food for the poor and needy, as well as some essential infrastructure services.

Many Muslims, however, continue to have a misunderstanding about *waqf* and primarily focus on immovable objects to consider as *waqf* assets, such as land and buildings. The use of cash to create *waqf* assets is still uncommon. One type of *waqf* instrument called cash *waqf* has become famous in many Muslim countries after Imam Zuhair approved the collection of cash *waqf*. He explained that *Mudarabah* could be an investment scheme for cash *waqf* collection and profit distribution as a charity (Çizakça, 2015; Chowdhury (2011). In other words, the practice of cash *waqf* has existed since the first century of Hijrah, during the early Islamic historical era. The cash *waqf* can be used as an interest-free financing tool or invested to generate profit for the *mauquf* alaih (Kahf, 2014).

### **Cash Waqf as an Alternative Funding Source**

Various financing models have been developed to create more productive *waqf* assets and maintain the value of the *waqf* asset. Cash *waqf* has become a popular form of *waqf* generation and financing in many Muslim countries (Abdel Mohsin, 2013). Cash *Waqf* is defined by Chowdhury (2011) as a trust fund established with money to support services to humanity in the name of Allah. The gifted capital was "transferred" to borrowers, who returned the principal to the *waqf* after a certain "extra" amount was spent on various pious and social purposes. As a form of Islamic social finance open to most of the population, cash *waqf* has been well-known and practiced by various Muslim countries in various real and financial sectors (Çizakça, 2015; Hasanah, 2011; Hosseini, 2014; Masyita, Tasrif, and Telaga, 2005; Nizar, 2014).

The innovation of cash *waqf* management greatly assists the creation of wealth distribution with a wider range of benefits, both for the rich to fulfill their religious needs and for the poor through increasing job opportunities and community economic development. The establishment of *waqf* institutions under the Islamic public finance sector has also been proposed to support the cash *waqf* collection from Muslims. The generated cash *waqf* can then be used to fund small and medium-sized enterprises (SMEs) that face non-bankable problems due to a lack of collateral (Amin, 2011; Muhammad, 2011; Tohirin, 2010). The integrated cash *waqf* microenterprise investment (ICWME-I) model (Thaker, 2018) can support these small businesses to solve business difficulties and obtain financing. In addition to the business financing of SMEs, the cash *waqf* generation from donors can also contribute to the development of human capital by building training centers using the ICWME-I model (Thaker *et al.*, 2021).

Cash *waqf* can also be collected from donors in exchange for the right to benefit from commercialized projects developed on *waqf* lands, as long as the donors know how their contributions are used (Pitchay *et al.*, 2018). Sulaiman *et al.* (2019) emphasized the importance of using *waqf* investment strategies to ensure long-term returns by introducing unit trust *waqf* conceptual models as viable mechanisms for pooling more cash *waqf* from individual investors. Research on the commercialization of *waqf* by Ari & Koc (2021) considered alternative equity-based financing models and proposes a *waqf*-owned (also called philanthropy-, endowment-, trust-, foundation-, or third sector-based) financial intermediary (WOFI) to diminish wealth inequality and the debt burden.

To increase the role of Islamic banks, in particular the government banks, in *waqf* generation and utilization, Kahf and Mohamed (2017) propose the operationalization of the cash *waqf* fund (CWF) as a non-profit based instrument for personal financing (PF), especially for bank customers. To apply the cash *waqf* model to developing a simple productive *waqf* model in Indonesia, Ascarya, Hosen, and Rahmawati (2021) found five determinants of simple productive *waqf* in the Indonesian context. These factors are *waqf* institution, *waqf* asset, *waqf* management, *waqf* financing, and *waqf* compliance. Cash *waqf* has become the most important element in the *waqf* financing factor. Based on the combination of *waqf* financing and *waqf* management, the cash *waqf* and self-managed model is the most preferred model due to its simplicity and low cost.

### **Waqf-based Entrepreneurship**

The importance of high professionalism in *waqf* management has been highlighted by several studies. Laallam *et al.* (2020) stated that intellectual capital is the most important factor in supporting the operation of *waqf* institutions. Other factors that must also be strongly considered are accountability, source of funding, management, and labor quality. The limitations of social and commercial business professionals in *waqf* institutions have also become a major obstacle to developing productive *waqf* in Indonesia (Rahmaningtyas and Herianingrum, 2017).

Al Qital, Sunarya, and Devi (2022) used SWOT analysis to conclude that the growing entrepreneurship field in Indonesia is evident from Indonesia's third-place ranking out of 54 countries in the 2018 GEM survey, which is an opportunity factor for the development of *waqf*-entrepreneurship. However, a lack of literacy in contemporary *waqf* practices and the small number

of institutions that focus on *waqf*-entrepreneurship programs still overshadow that growth. Further, studies about *waqf*-based entrepreneurship in Indonesia are still scarce. In Malaysia, Ali, Ismail, and Saed (2015) proposed that fostering successful young entrepreneurs based on the *waqf* model will lead the target group to not only become employers but also foster new entrepreneurs among young university graduates, thereby assisting the government in significantly lowering the high rate of unemployment among university graduates. Furthermore, educational institutions may also need to focus on member synergy to increase the efficiency and effectiveness of entrepreneurial spirit enhancement (Anantadjaya *et al.*, 2013).

In addition to increasing the collection of *waqf* assets and their ability to generate income, reliable *waqf* management is one of the requirements for ensuring the redistribution sustainability of *waqf* properties for both the beneficiaries and society in general. According to Siswantoro, *et al.* (2018), no shariah audits have been performed on *waqf* institutions. This issue is sensitive because the absence of a Shariah audit and report of a *waqf* institution can jeopardize accountability and governance, as this is a requirement for an Islamic organization. According to Rusydiana and Devi (2018), the most important criteria influencing the selection of *waqf* institutions in Indonesia are financial transparency/accountability and innovative programs. The concept of *waqf*-based entrepreneurship has also developed recently in Indonesia. This phenomenon is a signal of increasing attention to the empowerment of *waqf*-based entrepreneurship and opens the opportunity for external funding.

The founder of the Wakaf-preneur Institute in Indonesia, Imam Nur Aziz (2019), explained that *waqf*-preneur integrates *waqf* and business for productive activities and generates beneficial profits for the people. The Indonesian *Waqf* Board (BWI) encourages student groups to develop *waqf*-based entrepreneurs (Ammurabi, 2019). Mahbubi (2022) argued that in reaching success during covid-19 pandemic, millennial entrepreneurs hold several main characteristics, namely innovative, critical thinking, visionary, cooperative, enthusiastic, and willing to learn and share.

### **Previous Study on *Waqf*-Based Financing**

The major frameworks from 11 previous research related to the cash *waqf* model are as follows:

1. Abdel Mohsin (2013), Deposit Cash *Waqf* Scheme (DCWS).
2. Ari & Koc (2021), *Waqf*-based alternative financing model for renewable energy investments.
3. Ascarya *et al.* (2022), Proposed a model of integrated Islamic commercial and social finance for Islamic banks in Indonesia.
4. Aziz & Osman (2015), Islamic Social Business.
5. Chowdhury (2011), Cash *WAQF* management.
6. Jouti (2018), Islamic Social Finance Ecosystem: Islamic banks as a way to leverage funds for *waqf*.
7. Jouti (2018), Islamic Social Finance Ecosystem: Islamic banks financing *waqf* project.
8. Jouti (2018), Islamic Social Finance Ecosystem: Sukūk issuances for *waqf* project financing.
9. Pitchay *et al.* (2018), Cooperative-*Waqf* Model (CWM).
10. Sulthani *et al.* (2018), Social Enterprise *Waqf* Fund Model (SEWF).
11. Sulaiman *et al.* (2019), Unit trust *waqf* model.
12. Thaker (2018), Integrated Cash *Waqf* Micro Enterprises Investment (ICWME-I)
13. Thaker *et al.* (2021), Cash *waqf* model for micro enterprises' human capital development.

Several critical findings from the previous literature on cash *waqf* model are: most of the research is still in the conceptual framework stage; the actors in the model are donors/founders/investors, associated *waqf* institutions, the Islamic Bank, Islamic charity/social/religious organizations, beneficiaries, microfinance, and specific projects; investment authority in the existing model is held mainly by Trustee/mutawalli from religious institutions/social organizations; the bank acts as the intermediary for *waqf* institutions to generate revenue from commercial investments in the form of deposit accounts in the bank; and the definition of the cash *waqf* model primarily is generating money to finance public service and benefiting social objects (Abdel Mohsin, 2013; Ascarya *et al.*

2022; Aziz and Osman, 2015; Chowdhury, 2011; Jouti, 2019; Pitchay et al., 2018; Sulaiman, *et al.*, 2019; Shulthoni *et al.*, 2018; Thaker, 2018; Thaker *et al.*, 2021).

The existing model also describes the general type of *wakif* as the source of cash *waqf* fundraising and is not focused on the affluent Muslim segment. Moreover, the objective of the cash *waqf* collection is solely for charity to benefit society and not to obtain any commercial return on the investment from the business running on the *waqf* asset, which is more likely to create a sharia-compliant business. In addition, the empowerment of *waqf* assets has not been utilized for long-term investment purposes for the *waqif*'s family.

The utilization of cash *waqf* for financing has been proposed to finance micro enterprises and specific *waqf* projects and develop human capital (Thaker, 2018; Thaker *et al.*, 2021). Jouti (2019) suggests that commercial financing channeling can be an effective way to mobilize financial resources for traditional institutions. Islamic banks can act as providers of funds for interested people in various forms, starting from donations and ending with commercial funding. However, Jouti (2019) did not explicitly explain the concept of the integration of Islamic commercial finance and social finance with specific objectives related to ecosystem sustainability. The commercialization of *waqf* was also presented by Ari & Koc (2021) using alternative equity-based financing models that offer a *waqf*-owned (also called philanthropy-, endowment-, trust-, foundation-, and third sector-based) financial intermediary (WOFI) to diminish wealth inequality and the debt burden. Later, Ascarya et al. (2022) attempted to propose a model of commercial and social finance integration. However, the model does not represent the integration of commercial financing with social finance, which directly finances the productive *waqf* assets managed by business professionals, specifically the *waqf*-based entrepreneur.

## METHODOLOGY

This present study employed exploratory qualitative methods to propose the financing model for *waqf*-based entrepreneurs (*wakafpreneurs*) by empowering the affluent Muslims potential. In addition, this study tried to gain insight into both the opportunities and challenges of developing and implementing the financing model in Indonesia.

This qualitative research was conducted in two steps. First, this study comprehensively reviewed the literature on the *waqf* financing model. Second, the case studies adopted from Eisenhardt (1989) were conducted through semi-structured interviews with nine selected respondents. The interviews aim to obtain complete information and better understand the research topic in the context of Indonesia. In constructing the model and determining the appropriate variables for the model, this study refers to various previous studies conducted over the last 10 years and the analysis of interview results as displayed in Figure 2. This study adopted Saunders *et al.* (2015) to determine the number of respondents as the minimum sample of semi-structured interviews.

### 1. Sample and sampling procedure

The selection of the nine respondents who took part in this study was based on purposeful sampling (Table 1). Respondents were from two cities in Indonesia, Jakarta and Bandung, and are knowledgeable on *waqf* with a minimum of one year of experience. The participants are regulators, practitioners, or *waqf*-based entrepreneurs. These two cities were selected based on the level of wealth with a record of the highest Gross Regional Domestic Product for 2016-2020 (BPS, 2021).

**Table 1.**  
**Profile of the Respondents**

Codes	Role of Respondent	Area of Expertise/Institution	Respondents' Position
R1	Regulator	Central Bank	Executive Director
R2	Regulator	Financial Service Authority	Deputy Director
R3	Practitioner	Islamic bank	Head of Islamic bank
R4	Practitioner	<i>Wakafpreneur/Nazhir</i>	Business founder, owner, and Director of <i>Waqf</i> Institution

R5	Practitioner	<i>wakafpreneur/Nazhir</i>	Business founder, owner, and Director of <i>Waqf</i> Institution
R6	Practitioner	<i>wakafpreneur/Nazhir</i>	Business founder, owner, and Director of <i>Waqf</i> Institution
R7	Practitioner	<i>wakafpreneur/Nazhir</i>	Director of <i>Waqf</i> Institution
R8	Practitioner	<i>wakafpreneur/Nazhir</i>	Director of <i>Waqf</i> Institution
R9	Practitioner	<i>wakafpreneur/Nazhir</i>	Director of <i>Waqf</i> Institution

**2. Interview and Data Analysis Process**

Because of the pandemic, all of the interviews were conducted online. This study occupied in-depth semi-structured interviews by allowing discussions during the interviews and open-ended questions with only a few pre-determined questions (Saunders et al., 2015). By using this method, researchers can obtain more complete information and comprehend topics that are considered complex, sensitive, and personal (Ahmad, 2011, Eisenhardt, 1989). In addition, through in-depth discussions, the researcher can gain insight into the needs and expectations of waqf-based entrepreneurs, and knowledge about the challenges and opportunities in financing models for waqf-based entrepreneurs involving Islamic commercial institutions such as Islamic banks.

This study used the interview protocol which is adopted by Jacob & Furgerson (2015) in conducting the semi-structured interview (Figure 1). To make sure the quality of the data collection is always the same, as well as to maintain risk from ethical and physical field issues, we created a table of interview questions based on the research questions. Table 2 below describes key questions as the interview guideline for the study.

Next step was preparing the consent letter following the ethical guideline and obtaining ethical approval from the ethics committee of the School of Business and Management, Bandung Institute of Technology (SBM-ITB). This research emphasizes that the participation of respondents is voluntary by not only getting permission from the respondents but also asking the respondents whether they agree to participate after reading and signing the informed consent (Neuman, 2011). The researcher then organized the interview device for online interviews. Each interview lasted 1-1.5 hours and was digitally recorded. During the interview, the interviewees gave their consent to the recording process. Telephone and instant messaging were used for follow-up interviews, confirmation, and additional questions. The qualitative phase produced verbatim interview transcripts. These interview transcripts were manually analyzed using qualitative content analysis.

This study uses the directed content analysis method with a deductive approach to text (Mayring, 2014). The content analysis aims to explore and understand phenomena related to waqfpreneur financing, including the potential, obstacles, and elements in a financing model for waqfpreneur. This method systematically assists in the classification process and identifies themes or patterns from the interview data, to develop a proposed model for financing using cash waqf. The researcher analyzed all interview transcripts to classify the main factors that fall into potential and barriers. From all the elements identified, this study can interpret strategic criteria to be implemented in establishing a direct financing model for wakafpreneurs.

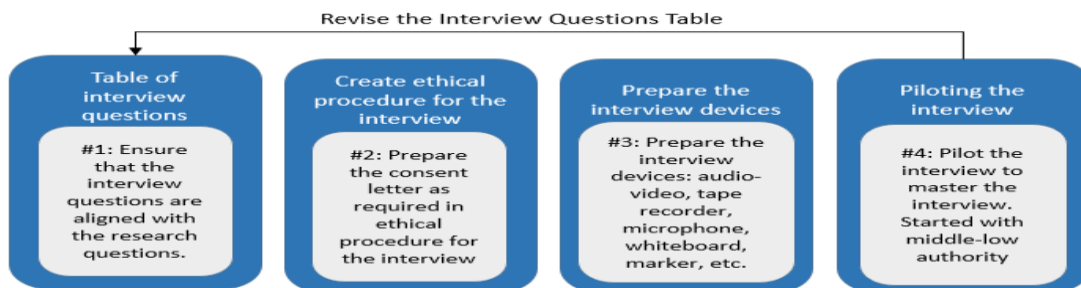


Figure 1. Interview protocol (Jacob & Furgerson, 2015)

Table 2. Overview of key questions-semi structured one-on-one interview guideline

Topics	Content-driven questions
<i>Waqf</i> Phenomena in Indonesia	<ol style="list-style-type: none"> <li>1. How do you see the development of cash <i>waqf</i> in Indonesia, viewed from all the elements in a cash <i>waqf</i> model, starting from the wakif/donor, nazir, regulator, Islamic banks, and communities?</li> <li>2. What do you think about <i>waqf</i>-based entrepreneurs and their critical role?</li> </ol>
Affluent Muslim’s contribution	<ol style="list-style-type: none"> <li>3. How do you see the potential of Muslims in Indonesia who are classified as affluent Muslims in terms of income and their ability to perform cash <i>waqf</i>?</li> <li>4. What is your recommendation for the financing model to integrate Islamic banking in Indonesia and <i>waqf</i>-based entrepreneurs in Indonesia by involving a particular segment of affluent Muslims in Indonesia?</li> </ol>
Islamic banks and <i>waqf</i> -based entrepreneurs	<ol style="list-style-type: none"> <li>5. What are key factors or criteria to integrate Islamic bank with <i>waqf</i>-based entrepreneurs?</li> <li>6. What are the obstacles faced by <i>waqf</i>-based entrepreneurs in obtaining financing from Islamic bank?</li> </ol>

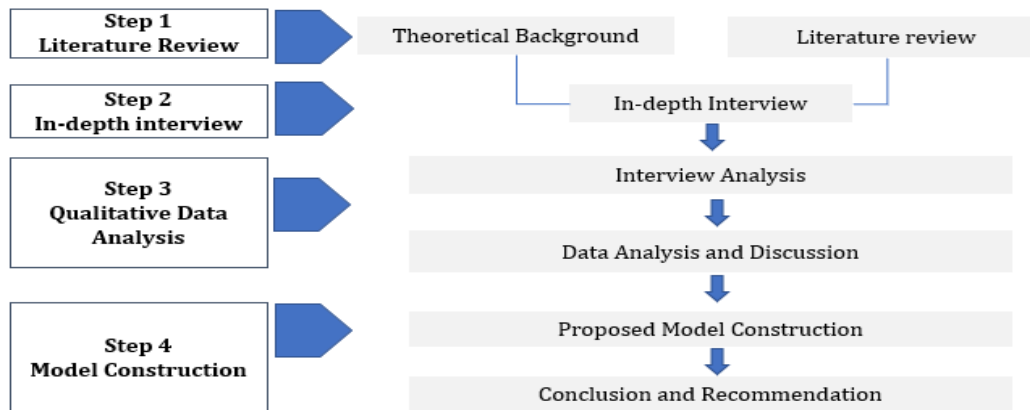


Figure 2. Stages of the research

**FINDING AND DISCUSSION**

**Definition of *waqf*-based entrepreneurs (*wakafpreneur*)**

Two respondents with positions in charge of *waqf* asset mandates explain the definition of *waqf*-based entrepreneur or in this study is termed as *wakafpreneur*. R4 defined *wakafpreneur* as all programs or processes designed to optimize entrepreneurship within a *waqf* scheme or endowment framework. Another respondent, R7, explained that a *wakafpreneur* is an entrepreneur who has a well-established vision of their community, a good vision of developing community funds, and exceptional commitment. A *wakafpreneur* will actively contribute to social problem-solving using a *waqf*-based and entrepreneurial approach.

**Potential to financing *waqf*-based entrepreneurs in Indonesia**

Thaker (2018) emphasized that cash *waqf* can support small business to get financing and survive. Financial support is also critical as mentioned by all *wakafpreneurs* respondents, given the large potential amount of cash *waqf* that can be collected from Muslims in Indonesia and developed by reliable and professional *wakafpreneurs* in running a *waqf*-based business.



*"I try to help bring the waqf ecosystem closer to business. Entrepreneurs are people who have the skills and ability to turn something into profit or turn it into a commercial profit. So, I don't believe this waqf is solely social, which is why it needs to be corporatized."-R4*

Most of the respondents agree that it is critical to consider the business and commercial aspects of developing *waqf* assets in order to encourage *waqf* fund collection.

*"I agree that Islamic banking should be prioritized in terms of customer and public waqf literacy and education. The question is, how? First, it can be imposed via provisions. The second approach makes more sense, especially from a business standpoint, namely what is the profit for the bank if it provides social products such as waqf."-R2*

A *wakafpreneur* has a distinct characteristic that enhances their entrepreneurial spirit. First, *wakafpreneur* must build the entrepreneurial spirit to run a business with *waqf* capital. Second, a *wakafpreneur* must understand *waqf* based on *fiqh* (Islamic rules of *waqf*) from the start. As a result, *Nazhir* with no experience or skills in business development should never use or dare to use *waqf* funds for investment. A *wakafpreneur* also has a high motivation to engage and fulfill their commitment to manage and develop *waqf* assets.

*"I want to present a legacy of a waqf-based corporate company, which becomes a reference for waqf governance, especially for productive waqf."-R7*

The awareness of *waqf* asset management will ensure the sustainability of *waqf* assets and is one of the most important foundations for a *wakafpreneur* to understand.

*"A waqf entrepreneur must be able to mitigate and minimize risks so that the waqf funds used for this waqf-based business development effort are not reduced or lost."-R9*

Table 3 summarizes factors mentioned by all respondents as potential factors in designing the direct financing model for *wakafpreneurs* in Indonesia. The table includes the number of respondents who specifically mentioned the factors during the interview. Most respondents agreed to empower the potential affluent Muslims to participate in direct financing through Islamic banks.

Waqf *fiqh* which allows *waqf* for investment purposes and high commitment from *waqfpreneurs* in carrying out *waqf* management increases opportunities for developing productive *waqf* in Indonesia. Therefore, Islamic banks with established infrastructure in terms of human resources, systems, and technology, should play more roles in the social sector and not only focus on their commercial goals. The government must also provide intensive assistance through related authorities to support the feasibility and sustainability of the financing initiatives. The role of social media has also accelerated the dissemination of financing models to *waqfpreneurs*.

Table 3. Primary potential factors in financing *waqf*-based entrepreneurs in Indonesia

Factors	Number of respondents
1. Fiqh law allows <i>waqf</i> for investment purposes	7
2. Indonesian popularity as the most generous country	1
3. <i>Wakafpreneur</i> high self-commitment	5
4. More intensive certification program for <i>wakafpreneurs</i>	3
5. Established Islamic bank infrastructure	3
6. Support from the government in regulation and initiatives.	3
7. High social media users in Indonesia	3

### Challenges to Financing *waqf*-based entrepreneurs in Indonesia

Table 4 summarizes factors mentioned by all the respondents as the obstacles in designing the direct financing model using cash *waqf* in Indonesia through Islamic banks. In the table, we can also see the number of respondents who specifically mentioned the primary obstacle factors during the interview.

Financing schemes for *wakafpreneurs* must also consider current laws and regulations. The existence of restrictions on banks' roles remains a challenge for the development of *waqf* financing. In addition to low public literacy regarding productive cash *waqf* and the professionalism of *waqf* managers, the main inhibiting factor most frequently mentioned by all respondents is the need to synchronise *waqf* regulations with other regulations, especially banking.

*“Now, let us look at it through the lens of Islamic banking law. The current waqf law prohibits Islamic banks from acting as waqf managers or Nazhir. There, Islamic banks can only act as cash waqf collectors (LKSPWU) and Nazhir partners. As a result, the Islamic banking law and the waqf law appear to be in conflict.” – R2*

*“There must be advantages from the bank’s perspective; even if it is an Islamic bank, they will undoubtedly see the benefits and risks for the bank. A bank cannot allocate human resources and technology for which there is no financial benefit in the financing distribution, as seen by the bank’s waqf organization.”-R3*

*“Even if we sell a social product, whatever it is, I believe there should still be a question about what the profit is for me as an individual executive, as well as whether it is profitable for the division.”-R2*

Given the difficulties in meeting the requirements of the Islamic financial institution, *wakafpreneurs* often prefer to collect *waqf* funds voluntarily from individual donors or institutions for productive *waqf* financing, which is a time-intensive process. Furthermore, there are still concerns about *wakafpreneurs* ' capacity and governance system for managing *waqf* assets.

*“Meanwhile, MSMEs frequently come into contact with bookkeeping. Investors expect adequate, good, routine reports that adhere to standards. On the other hand, SMEs require capital but lack bookkeeping experience, still failing to meet the bank's requirements.” – R3*

Many small-medium-sized enterprises (SMEs) face financing difficulties due to a lack of collateral (Amin, 2011; Muhammad, 2011; Tohirin, 2010). In Indonesia, *Wakafpreneurs* are also still facing significant challenges in raising funds to develop *waqf* in Indonesia. One of the difficulties in obtaining financing from Islamic finance institutions is because of the high-risk exposure of the SME business while Islamic banks must also focus on the commercial side. The demand for collateral by Islamic banks reflects the high-risk perception of *waqf* business management. Based on banking regulations, Islamic banks must maintain liquidity and financial stability.

Table 4. Primary obstacle factors in financing *waqf*-based entrepreneurs in Indonesia

Factors	Number of respondents
1. Unsynchronized regulation between <i>waqf</i> and Islamic banks regarding <i>waqf</i> financing.	8
2. Lack of professionalism and business capacity of <i>wakafpreneurs</i> .	7
3. Lack of literacy on contemporary <i>waqf</i> .	8
4. Low trust to <i>waqf</i> management	3
5. Lack of <i>waqf</i> management infrastructure	3
6. <i>Wakafpreneur</i> in small scale business is often considered unbankable.	5
7. Perceived high risk of <i>wakafpreneur</i> 's business	5

8. Obligation to maintain liquidity and financial stability for the Islamic banks.	4
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### Strategic criteria to develop the *Wakafpreneur* financing model

Considering the potential and obstacle factors mentioned by the respondents, this study concluded several strategic criteria are required to bring together Islamic financial institutions and *wakafpreneurs* in a financing scheme: continued literacy and socialization, transformation of regulatory and management transparency, the professionalism and business capacity of the *wakafpreneurs*, synergy, and collaboration among stakeholders, and integrated and reliable infrastructure for *waqf* financing. Each of the strategies is explicitly explained by the respondents' quotes and how it can be implemented in the proposed model, as shown in Table 5:

Table 5. Strategic Criteria for the Direct Financing Scheme

Strategic criteria for the financing scheme	Respondents' representative quotes	Implementation in the proposed financing Model
Continued literacy and socialization	R2: <i>"I agree that Islamic banking should be prioritized in terms of customer and public education. The question is, how? First, it can be imposed via provisions. The second approach makes more sense, especially from a business standpoint. Namely, what is the profit for the bank if it provides social products such as waqf?"</i>	Islamic banks can take a personal approach to cash waqf literacy and programs.
Transformation of regulatory and management transparency	R1: <i>"Once again, legal clarity is required. Perhaps our middle-class investors are not averse to entering waqf. However, the legal clarity of some bad experiences frequently results in moral hazard, which leads to fraud and corruption."</i>	There must be synchronization between waqf regulations and Islamic banks for the financing schemes. Supervision of the management of investment funds must be included. Regular reports will also be critical for building public trust.
The professionalism and business capacity of the <i>wakafpreneurs</i>	R3: <i>"There must be a strong underlying project because the bank must ensure that the wakafpreneurs can return the capital to the Bank."</i>	A mentoring program is needed for <i>wakafpreneurs</i> to grow, develop and be self-sufficient. Waqf institutions that are more established and meet the requirements for banking administration can help in mentoring, business collaboration, and mediating <i>wakafpreneurs</i> , particularly those who are still not bankable.
Synergy and collaboration among stakeholders	R1: <i>"The issue is that there is no such thing as collaborative action. Indonesian institutional collaboration is weak because each institution has its own agenda."</i>	Placing appropriate authorities, such as financial supervision, waqf supervision, ministry of religion, and ministry of entrepreneurship. The role includes the mentoring, cooperating, and supervision process. In addition, the model must optimize collaboration among authorities.
Integrated and reliable infrastructure for <i>waqf</i> financing	R1: <i>"If you want to integrate, you must develop a financing framework that combines</i>	Financing with more flexible schemes for <i>wakafpreneurs</i> with affluent Muslims as the investors can support

	<p>surplus and deficit units. The waqf program is unsustainable due to a lack of infrastructure and support. Currently, the program existence is still random and inconsistent.”</p>	<p>the creation of sustainable financing while increasing the professionalism of the wakafpreneurs. The scheme can accommodate various types of participation such as cash waqf (waqif type) or investment capital (hybrid type). The benefits for Islamic banks from financing schemes for wakafpreneur also need to be considered</p>
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Proposed model of wakafpreneur direct financing scheme through an Islamic bank

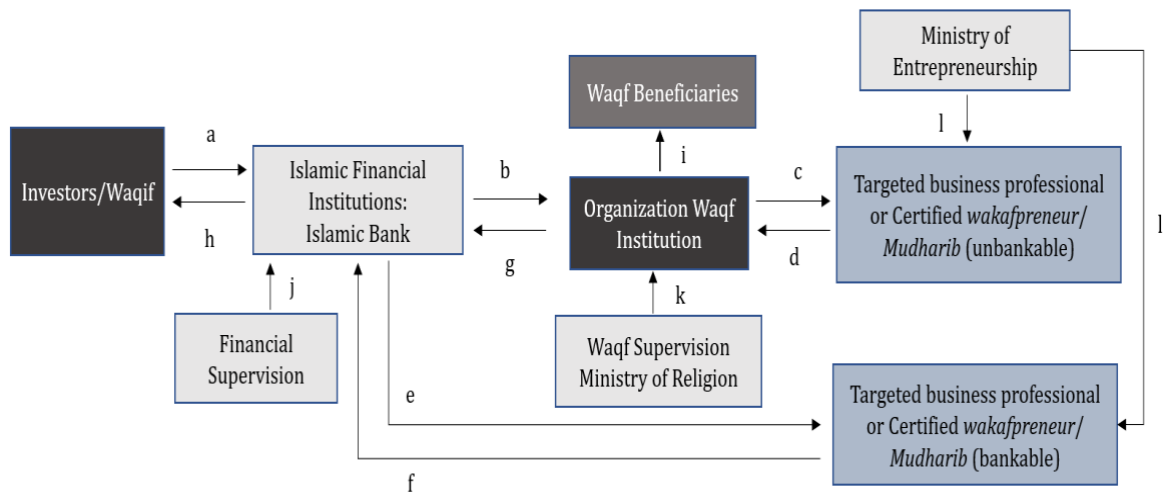


Figure 3. The conceptual model for wakafpreneur direct financing through Islamic Bank

Based on the results of the potential, challenges, and strategic criteria data analysis above, this study proposes a model for direct financing through an Islamic bank for wakafpreneur as displayed in Figure 3. The explanation of the modus operation of the conceptual model for wakafpreneur financing through an Islamic bank is as follows:

- a. After the Islamic bank delivers a business proposal from a waqf institution to potential investors among their customers, the investor can decide whether they will participate in a waqf project investment in the form of cash waqf (waqif type) or investment capital (hybrid type). The hybrid type means that the investor can receive and use some part of the business return of the waqf project for themselves. The Bank arranges and records the investor's placement to the waqf project in a dedicated account. The bank will arrange the contract between the investors and the waqf management in a dedicated account. The investment target for developing waqf assets is in two types of businesses, namely start-up businesses and ongoing businesses. The amount of investment fund will adjust to the requirement of the waqf management. The bank can determine the number of investors who will participate in the investment by using the total amount of funds required divided by the minimum amount of funds that customers can invest in the waqf project. This method can help customers to avoid high-risk exposure to the business. However, investors can place more investment if they strongly believe in the waqf business prospect. The bank can also participate in financing for prospective waqf projects by establishing a maximum limit that takes into account business risks.
- b. After examining all documents provided by waqf management to the bank as the appraisal of their business proposal, the investors can decide which targeted project to invest in. The hybrid type of investors and the waqf management commit the investment returns, which the bank

- can suggest to have a simple split, which is a balanced 50-50 share between commercial and social returns. The investors are entitled to a maximum of 50 percent of commercial return.
- c. Mudharib (external business institutions) or certified Nazhir who have met the bankable requirements can be appointed by Islamic banks to directly channel investment funds from customers without going through large intermediary *waqf* institutions.
  - d. Mudharib (external business institution) or certified Nazhir who works with *waqf* institutions carries out *waqf* projects, provides business returns, and regular reports to *waqf* institutions.
  - e. If the *waqf* institution wishes to appoint Mudharib (external business institutions) or Nazhir who are not yet in the bankable category to run the *waqf* project, Islamic banks can channel investment funds from customers through *waqf* institutions. This method also seeks to assist small Nazhirs that do not yet meet the bankable criteria for them to collaborate with large and institutionally established Nazhirs that already have financial relationships with financial institutions. The large Institution's Nazir becomes the main Institution in charge of the smaller Nazhir.
  - f. Business returns and regular reports are provided by bankable and certified Mudharib or Nazhir who work directly with Islamic banks.
  - g. Islamic banks require *Waqf* institutions to submit business returns and regular reports.
  - h. Investors/waqif receive business returns and regular reports from Islamic banks. Banks can obtain fee-based income for their intermediary function.
  - i. *Waqf* institutions distribute benefits from *waqf* project profit to *mauquf'alaih*.
  - j, k, l. Government agencies that can play a significant role in developing *waqfpreneurs* through Islamic bank financing include banking supervision, *waqf* supervision, the Ministry of religion, and the Ministry of entrepreneurship.

**Comparison with existing studies on waqf-based entrepreneurs and proposed financing models.**

Table 6. Studies, Definition, Actors in the Model, Type of Fund Raising, Purpose

Studies	Definition	Actors in the model	Type of Fund Raising	Waqf Utilization and Purpose	Country of Context
The Proposed Model in this Study: Maulina et al. (2023)	Cash Waqf Direct Financing for wakafpreneurs: this model is specifically designed for the integration scheme between specific services for affluent customers in Islamic banks with <i>waqf</i> -based entrepreneurs	Individual affluent customers in Islamic banks, Islamic banks, waqf institution, certified/professional <i>wakafpreneurs</i> , related authorities, beneficiaries.	Participation in the form of cash waqf (as a waqif) or investment capital (hybrid as waqif and investor). Hybrid means that the investor can receive and use some part of the business return of <i>waqf</i> project for them self.	<ul style="list-style-type: none"> <li>- Financing targeted <i>wakafpreneurs</i>.</li> <li>- The beneficiaries can be the combination of public waqf and family waf. Public waqf for social purposes and family waqf for wealth generation purpose.</li> </ul>	Indonesia
Abdel Mohsin (2013)	Deposit Cash Waqf Scheme (DCWS): A public waqf to generate money or to raise funds from the public to a specified religious authority via a bank account to be invested by the bank.	Public donors, Trustee/Mutawalli from religious institutions, banks, and public beneficiaries.	Voluntary endowment with temporary waqf.	<ul style="list-style-type: none"> <li>- Public waqf and charity purpose</li> </ul>	Singapore, Bahrain, and South Africa
Ari & Koc (2021)	Waqf-based alternative financing model for renewable energy investments: alternative equity-based financing models and proposes a waqf-owned (that could also be called philanthropy-, endowment-, trust-, foundation-, and third sector-based) financial intermediary (WOFI).	Individual and large enterprise creditor/investor, Islamic Banks/manager with mudarabah & musharakah, debtor.	Investment using a waqf fund scheme through a waqf-owned financial intermediary (WOFI)	<ul style="list-style-type: none"> <li>- Specific investment for solar farm project</li> <li>- Community's wealth inequality improvement</li> </ul>	Not specifically mentioned
Ascarya et al. (2022),	The proposed Integration of Islamic Commercial and Social Finance (IICSF) models for Islamic bank	Individual and institutional donors, social unit, separate zakat institution, separate Baitul Maal, integrated Baitul Maal, corperate, public beneficiaries.	Voluntary endowment	<ul style="list-style-type: none"> <li>- To define criteria: commercial, social, strategic, and alternatives for the integration model.</li> <li>- Providing social and public services to the community, especially the poor.</li> </ul>	Indonesia

Table 6. Studies, Definition, Actors in the Model, Type of Fund Raising, Purpose

Studies	Definition	Actors in the model	Type of Fund Raising	Waqf Utilization and Purpose	Country of Context
Aziz and Mohamad (2015)	Islamic Social Business (ISB) is a model of an efficient system of Islamic wealth sourcing and management to make the process of poverty alleviation sustainable.	Individual and institutional donors, Islamic financial institutions, Islamic charity organizations, Professional Businesses of ISB, public beneficiaries	Voluntary contribution through zakah, waqf, and sadaqah	- Poverty alleviation and social problems reduction	Not specifically mentioned
Chowdhury (2011)	Cash WAQF management: Generating more benefits for all involved parties of the society with sustainability characteristics	Individual donor, Islamic Bank as Trustee, Takaful, Debtor: SME with Sharia compliance financing (PLS scheme), public beneficiaries	Voluntary endowment	- Investment in SME - Charity purpose from profit distribution	Malaysia
Jouti (2018)	Islamic Social Finance Ecosystem: an integrated approach for building, maintaining, and upgrading Islamic social finance and sustainable ecosystems.	Individual donors, Islamic Social Institutions: Zakat institution & Waqf institution, Islamic Commercial Institutions: Islamic microfinance institutions, Islamic banks, crowdfunding and fintech platforms, Islamic capital markets, public beneficiaries	Voluntary endowment	- Social purpose	Not specifically mentioned
Pitchay et al. (2018)	Cooperative-Waqf Model (CWM): a hybrid model of cooperative-waqf to finance idle waqf lands in Malaysia.	Individual donors, waqf institutions, public beneficiaries	Voluntary endowment	- Financing of mosques, schools or others and agricultural projects	Malaysia
Sulthani et al. (2018)	Social Enterprise <i>Waqf</i> Fund model (SEWF): waqf fundraising management model to enable the development of <i>waqf</i> funds and assets to achieve and maximize social benefit.	Individual donors, waqf institutions (Nadzhir) as the waqf fund (venture), social enterprises, public beneficiaries	Voluntary endowment	- Financing social enterprise - Social purpose	Not specifically mentioned

Table 6. Studies, Definition, Actors in the Model, Type of Fund Raising, Purpose

Studies	Definition	Actors in the model	Type of Fund Raising	Waqf Utilization and Purpose	Country of Context
Sulaiman et al. (2019)	Unit trust <i>waqf</i> model: Islamic endowment) as an alternative asset class for waqf creation.	Individual donors, State Islamic Religious Council (SIRC) as the 83utawalli, which is the sole trustee of the waqf, The fund manager, and beneficiaries.	Voluntary endowment	- Poverty alleviation and social problems reduction	Malaysia
Thaker (2018)	Integrated Cash <i>Waqf</i> Micro Enterprises Investment (ICWME-I): to provide a financial facility through the use of a cash waqf fund. It also involves a.	Individual and corporate sector donors, Cash waqf institution (CWI)/ Mutawalli/ Manager, microenterprises	Participatory contracts between Islamic voluntary organizations particularly waqf institutions and micro enterprises	- Financing micro-enterprises.	Malaysia
Thaker et al. (2021)	Cash <i>waqf</i> model for micro enterprises' human capital development: to provide state-of-the-art facilities for the delivery of HCD for the advancement of micro-enterprises in Malaysia.	Individual and corporate sector donors, Cash waqf institution (CWI)/ Mutawalli/ Manager, microenterprises	Participatory contracts between Islamic voluntary organizations particularly waqf institutions and micro enterprises	- To provide continuous support to micro-enterprises in the form of training and educational programs funded by the cash waqf fund.	Malaysia



## **DISCUSSION**

Regarding the waqf literature, we found that there is ample earlier research on the topic of the development of waqf fund collection models, one of which is through cash waqf. This type of waqf funding is preferable because it can attract more people to participate as a donor and decreases the risk of disturbance from human and natural factors (Chowdhury, 2011). However, the research relating to commercial financing models specifically intended to increase the participation of affluent Muslims to directly develop and empower productive waqf is scanty. In addition, the proposed model in previous research involving government authorities in the field of entrepreneurship and collaboration between waqf institutions to support the development of waqf-based entrepreneurship is also still scarce.

After conducting two qualitative phases in this study, we revealed the possibilities and challenges that must be addressed to design a waqf asset financing scheme to support its further development.

This study also includes five strategic criteria that must be met to successfully implement financing from Islamic financial institutions for the management of productive waqfs managed by wakafpreneurs in Indonesia, namely continued literacy and socialization, the transformation of regulatory and management transparency, improving the professionalism and business capacity of the wakafpreneurs, synergy, and collaboration among stakeholders, and integrated and reliable infrastructure.

The proposed wakafpreneur direct financing model in this study is specifically designed for the integration scheme between wealth management services in Islamic banks with waqf-based entrepreneurs from waqf institution. The productive waqf direct investment model will give a wider opportunity for banks' clients categorized as affluent customers to participate in productive waqf financing directly and receive both commercial and social return. This model will become an important solution to address main issues in productive waqf development such as the high risk for the bank to finance waqf project, lack of the provision of collateral by waqf-based entrepreneurs for running the waqf business, low participation of affluent Muslims for cash waqf, and low utilization of direct cash waqf by waqf-based entrepreneur/Mudharib.

This direct financing model as an investment model for customers is considered suitable for wealth management services because it provides personal services for each client. With the direct investment model, clients can get the opportunity to achieve investment goals for both the world and the hereafter simultaneously. In the other hand, the model will encourage higher business professionalism of waqf-based entrepreneurs to boost the utilization of various productive waqf in Indonesia. The involvement of related parties will give further support to the impact of the model to achieve the economic recovery.

For the operationalization of the model, several key points must be considered, which are related stakeholders involved in the model, financing system, business matching, supervisory and reporting system, technology support, human capital support, campaign and education of waqf, and socio-cultural influence. Waqf management that can be commercialized, be long-term, be multigenerational, and provide asset protection is expected to provide better support for the development of a more comprehensive waqf ecosystem with all its complexities.

## **CONCLUSIONS**

Conclusively, we found that millennials' intention to invest in Jakarta is already in a conducive situation. They are aware of and already investing in shariah investments but not yet become a habit. The situation is fully described by the result of hypothesis testing from 207 millennial respondents from 5 areas in Jakarta (central, west, north, east, and south Jakarta). The statistical testing showed a consistent positive relation between millennial investment intention in Jakarta explained by financial literacy (H1), the ease of access to financial instruments (H3), and Religiosity

with Islamic branding as the intervening variable (H4). Eventually, the lifestyle of millennials that was hypothesized in making the relationship between financial literacy to millennial investment intention getting stronger was found not statistically significant (H2). The condition clearly showed that millennials in Jakarta have good intentions in investing their fund. The situation confirmed that they had financial literacy to induce them in strong relation to put their intention on investment. The same situation goes with the ease of access, where the easiness to get investment access will make them positively have the investment intention. The religiosity accompanied by Islamic branding also showed the power of affecting millennials to have an intention in investments.

### LIMITATIONS & FURTHER RESEARCH

The study can be followed with model validation through focus group discussion (FGD) with various stakeholders such as government authorities, Islamic banks, representatives of banks' clients, waqf-based entrepreneurs, and waqf institutions. In addition, future research can apply empirical research employing simulation for the model.

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