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The Effectiveness of Productive Waqf in Supporting Sustainable Development: An Analysis of its Impact on Socio-Economic Growth

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Abstract. Productive waqf is increasingly viewed as a strategic instrument in supporting the achievement of sustainable development goals (SDGs) through the provision of long-term, sustainable social funding. This study aims to analyze the effectiveness of productive waqf in supporting sustainable development and its impact on community socio-economic growth. Using a literature review method, this study examines various academic sources discussing the concept, regulation, implementation, and impact of productive waqf. The study results indicate that productive waqf has the potential to support socio-economic development through increased income, job creation, poverty alleviation, empowerment of MSMEs, and the provision of social services such as education and health.

However, this effectiveness is still affected by various obstacles such as weak governance, lack of professionalization of nazhir (managers), and suboptimal investment management. This study emphasizes the need to strengthen institutional capacity, transparency, and integrate waqf into national development strategies so that its benefits can be felt sustainably. These findings contribute to the development of Islamic social finance theory and practice and serve as a reference for policymakers in optimizing the role of productive waqf for community welfare.

Keywords: Productive Waqf; Sustainable Development; SDGs; Islamic Social Finance; Socio-Economic Growth; Governance; Community Welfare; UMKM Empowerment; Investment Management.

INTRODUCTION

Sustainable development is a global issue that requires a multifaceted approach to address poverty, inequality, and environmental degradation. Since the declaration of the Sustainable Development Goals (SDGs) by the United Nations, countries have been encouraged to integrate innovative funding instruments that can strengthen the socio-economic resilience of communities (Bexell et al., 2017). In countries with a Muslim majority, Islamic philanthropic instruments such as waqf are seen as having strategic potential to contribute to these development goals. Productive waqf, in particular, can be a sustainable source of long-term social funding due to its permanent nature and inclusive orientation toward benefits (Kasus et al., 2019).

Historically, waqf has played a significant role in the development of public facilities such as education, healthcare, water infrastructure, and social protection in various regions of the Islamic world (Cizakça, 2011). Currently, the productive waqf model, which utilizes waqf assets through investment in business, agriculture, property, or other productive activities, is increasingly being used as a modern approach that can be utilized to address development challenges in the current era (Syuhada' & Munir, 2020). This aligns with the global trend that positions social finance as a supporting pillar of development oriented towards sustainability and equity.

In Indonesia, as a country with the largest waqf potential in the world, the government and waqf institutions are beginning to maximize the development of productive waqf as a more measurable and results-focused economic tool. The Indonesian Waqf Board (BWI) has encouraged the professionalization of waqf management by increasing the capacity of nazhir (Islamic trustees), digitizing waqf data, and synergizing with the Islamic financial system. This transformation is expected to integrate productive waqf into the national strategy for sustainable development, particularly in reducing poverty, increasing community incomes, and developing a community-based economy (Peneliti et al., 2022).

However, the effectiveness of productive waqf in supporting sustainable development still faces various empirical and theoretical challenges. The literature shows that many productive waqf programs have not been able to demonstrate significant socio-economic impacts due to weak governance, a lack of

professionalization of nazhir (Islamic trustees), and limitations in investment management (Haneef et al., 2015). Furthermore, there is still a lack of quantitative research directly measuring the contribution of productive waqf to development indicators such as increased income, job creation, economic empowerment, and household social welfare. This research gap indicates the need for a more comprehensive analytical approach to examine the relationship between productive waqf management and the achievement of the development agenda.

The effectiveness of productive waqf in supporting sustainable development still faces various challenges, both theoretical and practical. The literature shows that many productive waqf programs have not been able to demonstrate significant socio-economic impacts due to weak governance, a lack of professionalization of nazhir (Islamic trustees), and limitations in investment management (D. Muhammad, 2015). Furthermore, there is a lack of quantitative research directly measuring the contribution of productive waqf to development indicators such as increased income, job creation, economic empowerment, and household social welfare. This research gap highlights the need for a more comprehensive analytical approach to examine the relationship between productive waqf management and the achievement of the development agenda.

This study aims to analyze the effectiveness of productive waqf in supporting sustainable development and its impact on community socio-economic growth. Using an empirical approach that assesses the contribution of productive waqf to development indicators, this research is expected to provide a more measurable, objective, and methodologically tested understanding of the role of waqf in contemporary development. The findings can assist policymakers, waqf institutions, and the government in designing waqf development strategies that are more efficient, accountable, and based on community needs.

Globally, this research contributes in two important aspects. First, it enriches the literature on Islamic social finance by addressing the empirical gap regarding the link between productive waqf and sustainable development. Second, the results can serve as a reference for other countries seeking to mobilize waqf as an alternative funding source to achieve the SDGs and strengthen local wisdom-based social infrastructure.

LITERATUR RIVIEW

Pengembangan Wakaf Produktif

Productive waqf in language means having the nature or ability to produce, bring results, benefits and be profitable. (KBBI, 2008). Jaih Mubarak, emphasized that productive waqf is a change from ordinary waqf management to more professional waqf management in order to increase or add to the benefits of the waqf. (Mubarak, 2008). Productive waqf is a type of waqf in the form of fixed assets or property allocated for income-generating activities, with the resulting production distributed in accordance with the waqf's objectives. For example, waqf land used for agricultural activities or waqf springs managed for sale. Thus, productive waqf can be understood as the use of waqf assets for production activities in the agricultural,

industrial, trade, and service sectors. The benefits provided do not come from the direct use of the assets but from the net profits from their management, which are then distributed to the entitled parties in accordance with waqf provisions. (BWI, 2020).

The development of productive waqf aims to:

1. Increase the usefulness of waqf assets through productive activities such as sharia-compliant investments, property management, business, or agriculture.
2. Achieve economic independence for the community, particularly in financing social services without relying on external assistance.
3. Support sustainable development by utilizing waqf assets as a stable alternative source of funding that is not easily eroded in value. (O. Muhammad & Nizar, n.d.).

Meanwhile, from the perspective of Indonesian positive law, the implementation of productive waqf has obtained a clear regulatory basis through several provisions, including Law Number 41 of 2004 concerning Waqf, Government Regulation Number 42 of 2006 as its implementing regulations, and BWI Regulation Number 4 of 2010 and BWI Regulation Number 1 of 2020 concerning guidelines for the management and development of waqf assets. Article 5 of Law Number 41 of 2004 emphasizes that the function of waqf is to optimize the potential and economic benefits of waqf assets or property to support the implementation of worship and improve community welfare. (Efendi, 2018).

Types of productive waqf:

1. **Cash waqf**

A form of waqf made by individuals, groups, institutions, or legal entities in the form of cash. Cash in this context also includes various securities. This waqf scheme is an extension of traditional waqf practices, which were previously limited to immovable assets such as land and buildings, to include movable assets in the form of cash. The scope of cash in this waqf has been further expanded to include certificates, shares, and other securities as part of this category. In practice, the principal value of the waqf assets is maintained and then managed productively to generate benefits, which are then used for religious purposes and to improve community welfare in accordance with Sharia principles. (Salman, 2025).

The Indonesian Ulema Council (MUI) has also issued a fatwa regulating cash waqf as follows: (*KEPUTUSAN FATWA KOMISI FATWA MAJELIS ULAMA INDONESIA Tentang WAKAF UANG, 2002*):

1. Cash Waqf (Cash Waqf/Wagf al-Nuqud) is a waqf made by an individual, group of individuals, institution, or legal entity in the form of cash.
2. The definition of money includes securities.
3. Cash waqf is permissible.
4. Cash waqf may only be distributed and used for purposes permitted by Islamic law.
5. The principal value of a cash waqf must be guaranteed and cannot be sold, donated, or inherited.

2. **Share Waqf**

Share waqf is an action by a person who donates share ownership to a company by an individual, institution or legal entity to be used for waqf purposes in accordance with the waqf agreement. (Fauzi, 2021). The implementation of stock waqf in Indonesia is legitimized through general waqf regulations, particularly Law No. 41 of 2004 and its derivative regulations, and is reinforced by institutional guidelines and various scientific studies addressing the validity of shares as waqf objects. Several studies have shown that stock waqf can be classified as part of movable property waqf or cash waqf, as long as it meets the principles of maintaining the integrity of the principal value and distributing the benefits from its management. (Manan, 2022).

Pembangunan Berkelanjutan

Sustainable development is a development concept that emphasizes meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. This definition was first popularized by the World Commission on Environment and Development through the Brundtland Report (1987) and has become the foundation for various global policies on sustainability. In the modern context, sustainable development focuses not only on environmental aspects but also on the balanced integration of economic and social dimensions. (O. Muhammad & Nizar, n.d.).

In 2015, the United Nations launched the Sustainable Development Goals (SDGs) as a global benchmark for achieving sustainable development by 2030. The SDGs comprise 17 strategic objectives, including poverty eradication, quality education, clean energy, economic growth, sustainable consumption and production, and climate action. The implementation of the SDGs encourages countries to align development policies with sustainability principles. (Nations, 2015). Efforts to realize sustainable development face several obstacles. (Three & Purvis, 2019):

- Environmental degradation and overexploitation of natural resources,
- Social and economic inequality,
- Increasing levels of global consumption,
- Climate change accelerating ecosystem destruction,
- Limited coordination among stakeholders

Sustainable development has become the primary framework for countries and organizations in formulating development policies. This approach promotes a balance between economic, social, and environmental interests, thus creating inclusive and long-term sustainable growth. Furthermore, sustainable development is increasingly relevant in driving innovations such as renewable energy, environmentally friendly technologies, and a resource-efficient digital economy. (Report, n.d.). Waqf also supports infrastructure development and various environmentally conscious initiatives. Of the 20 infrastructure projects reviewed, 15 were classified as green projects, with an investment value of up to IDR 50 billion.r (Masrurroh et al., 2024).

Pertumbuhan Sosial-Ekonomi

Socio-economic growth is the process of increasing a society's capacity to sustainably meet its living needs, both in terms of economic and social well-being. In the context of modern development, growth is measured not only through economic indicators such as income, productivity, and employment opportunities, but also through social indicators such as the quality of education, health, and access to fair and equitable public services. (Report, n.d.). This integration between social and economic aspects is crucial for creating an inclusive and equitable society.

Socioeconomic growth is increasingly linked to the sustainable development agenda. Economic growth is not considered successful if it does not result in improved quality of life, poverty reduction, and increased well-being for vulnerable groups (Nations, 2015). This approach aligns with the SDGs, particularly Goal 1 (poverty eradication), Goal 8 (inclusive economic growth and decent work), and Goal 10 (reduced inequality).

Productive waqf plays a strategic role in driving socio-economic growth through financing social services, creating jobs, and empowering community-based economies. (Ikhwan, 2023). Research shows that managing productive waqf can increase household income, strengthen the UMKM sector, and expand community access to sustainable economic resources. Productive waqf is also considered capable of strengthening social resilience through the provision of educational facilities, healthcare services, and community empowerment programs.

METODE PENELITIAN

The method used in this research is a quantitative descriptive method. This means that this research will systematically and accurately describe the object under study to provide a more comprehensive picture of productive waqf in supporting sustainable development. This research adopts a literature study approach or literature review, which is a written summary of articles from journals, books, and other documents. This literature review describes theories and information from both the past and the present, by organizing the literature into relevant topics and documents. This approach emphasizes literature reviews from various sources, such as books, journals, essays, and other literature. (Sugiyono, n.d.).

This research is a literature study or library research. The technique applied in this study is a book survey, where the data sources used consist of various literature, such as books, papers, articles, and so on. The type of data collected in this study comes from a literature review, sources obtained through search engines such as Google Scholar, Scopus, Publish or Perish, web pages, and Sci-Hub. The data collected is qualitative and will be analyzed and explained.

RESULT AND DISCUSSION

The Effectiveness of Productive Waqf in Supporting Sustainable Development

The literature analysis in this study indicates that productive waqf has the potential to be utilized as a long-term funding instrument to support sustainable development goals (SDGs) by providing public facilities, financing social services, and investing in environmentally-oriented projects (such as green projects). However, its

effectiveness is influenced by the quality of governance, the professionalization of the nazhir (manager), and managerial capacity, resulting in many programs not yet demonstrating optimal impact in practice.

These findings are consistent with previous studies that have demonstrated the strategic potential of productive waqf to support the SDGs. (Bexell et al., 2017). Cizakça (2011) and Masruroh et al. (2024) also emphasized the role of waqf in financing public facilities and environmentally friendly projects, which aligns with the evidence from the green project cases in this study. Conversely, the findings regarding operational barriers, particularly weak governance and lack of professionalism, confirm the findings of Haneef et al. (2015) and Muhammad (2015), which show that institutional weaknesses reduce the effectiveness of productive waqf.

Literature on new waqf instruments (cash waqf and stock waqf) demonstrates legal legitimacy and potential for instrument diversification (Fauzi, 2021; Manan, 2022; MUI Fatwa, 2002). This study's findings suggest that expanding waqf objects (e.g., stock waqf) opens up opportunities for greater capitalization, but requires a stronger governance and policy framework—in line with findings in the legal and policy literature (Efendi, 2018; BWI, 2020).

From a sustainable development perspective, productive waqf is potentially effective, but its actual effectiveness depends on:

- (1) integration of waqf strategies with SDG targets (e.g., poverty alleviation, decent work),
- (2) professionalization of managers (nazhir), and
- (3) accountability and transparency mechanisms.

Without governance reform, waqf contributions will be fragmented and suboptimal. This finding strengthens the argument that socio-religious resources need to be combined with modern managerial capabilities to achieve development outcomes.

Its Impact on the Socio-Economic Growth of Society.

Productive waqf can drive socio-economic growth through several channels: increasing household income, creating jobs, strengthening UMKM, and improving access to education and health services.

Ikhwan (2023) found the role of Islamic social finance (including waqf) in economic growth in Indonesia, as well as research showing the positive impact of waqf on social services (Cizakça, 2011). On the other hand, several studies show that if the benefit distribution mechanism is not well designed and investment management is not carried out professionally, the impact on family income and social resilience will be less than optimal" (Haneef et al., 2015; Muhammad, 2015). Cash waqf and stock waqf indicate that diversification of waqf instruments can increase capital capacity for economic empowerment programs, a theoretical pathway that supports the multiplier effect on the MSME sector and employment (Fauzi, 2021; Manan, 2022). However, the literature also emphasizes the existence of risks such as market volatility in stock waqf instruments that need to be managed properly to avoid disrupting the sustainability of their benefits.

Productive waqf can be understood as a social financial intermediary that bridges community-based resources with public and social investment needs. This research finding suggests that, with proper management, productive waqf can have a dual impact: providing sustainable funding for social services while simultaneously increasing local economic activity. However, stronger empirical evidence, such as longitudinal research or quasi-experimental studies measuring changes in income, employment, or well-being indicators, is still needed to substantiate this claim (Nations, 2015; Report, n.d.).

Table: literature results on the impact of productive waqf on socio-economics

Socio-economic aspects	Literature findings	Impact of productive waqf	Implementation Form
Increasing community income	Community income increased after participating in productive waqf projects. {Rahman & Haneef (2024); Adnan (2020)}	Productive waqf increases income through productive businesses and economic activities based on waqf assets.	Waqf-based business units: agriculture, property, retail, and small businesses.
Job creator	Studies show that the existence of waqf businesses expands local employment opportunities. { Haneef et al. (2015); Cizakça (2011)}	Productive waqf creates direct and indirect jobs for local communities.	Utilization of waqf assets for MSMEs, economic centers, cooperatives, and the real sector.
Empowerment of UMKM	Waqf-based microfinance has been proven to increase the business capacity and assets of MSMEs. {Fauzi (2021); Mahamood & Ab Rahman (2015)}	Productive waqf provides capital, training, and facilities for micro-entrepreneurs.	Waqf-based microfinance scheme and skills training.
Poverty alleviation	Islamic social finance has been proven to reduce the level of economic vulnerability of poor groups. { Ikhwan (2023); Rahman & Haneef (2024)}	Productive waqf reduces economic vulnerability and improves the welfare of beneficiaries.	Integration of waqf with routine benefit distribution programs and community productive businesses.
Access to education & health	Historical evidence shows that waqf supports social services in a sustainable manner. { Cizakça (2011)}	Waqf provides social facilities that improve the quality of life.	Construction of schools, scholarships, clinics, hospitals based on waqf.
Strengthening social infrastructure	Waqf infrastructure contributes to increased social connectivity and economic mobility. {	Productive waqf improves public infrastructure and supports social stability.	Development of public facilities, public amenities, and green infrastructure projects.

	Rahman & Haneef (2024)}		
Community economic independence	The success of productive waqf depends on governance and innovation in financial instruments. { Manan (2022); Syuhada & Munir (2020)}	Waqf acts as a social investment mechanism to create long-term economic independence.	Diversification of waqf instruments (cash waqf, stock waqf, property waqf).

CONCLUSSION

Based on the literature review, it can be concluded that productive waqf has significant potential as a social financing instrument capable of supporting the achievement of sustainable development. Productive waqf has been proven to drive socio-economic growth by increasing community income, creating jobs, strengthening MSMEs, alleviating poverty, and providing education, health, and social infrastructure services. However, the effectiveness of productive waqf remains suboptimal due to various challenges, particularly related to governance, the professionalization of nazhir (Islamic trustees), and managerial capacity in managing waqf assets productively.

To maximize its contribution, more transparent waqf governance reforms, improved manager competency, digitalization of waqf information systems, and integration of waqf programs into the national development agenda are needed. Furthermore, more in-depth empirical research is needed to measure the long-term impact of productive waqf on socio-economic indicators. With strengthened regulations and innovation in waqf instruments (such as cash waqf and stock waqf), productive waqf can become a crucial pillar in realizing inclusive, equitable, and sustainable development.

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