AL-AWQAF
Jurnal Wakaf dan Ekonomi Islam
Vol. 17, No. 2, Tahun 2024

The Role of Waqf Bank in Strengthening the Islamic Economy: A Conceptual Framework

Abik Afada[1], Budiyono [2]

[1] STAI Tanbihul Ghofilin, Banjarnegara, garudabangsa45@gmail.com
[2] STAI Tanbihul Ghofilin, Banjarnegara

Abstract: This paper explores the concept and potential role of a Waqf Bank as a key institution in supporting the Islamic economy. By leveraging the traditional Islamic endowment system (waqf), a Waqf Bank could serve as a sustainable financial mechanism aimed at empowering Small and Medium Enterprises (SMEs), alleviating poverty, and promoting socio-economic development in Muslim-majority countries. This study employs a conceptual approach, drawing from both classical and contemporary literature on waqf and Islamic banking. It proposes a model where Waqf Bank operations align with Sharia principles while addressing modern economic challenges, such as financial inclusion and social welfare improvement. The findings suggest that a well-structured Waqf Bank has the potential to fill existing gaps in Islamic finance, providing a strategic means for wealth redistribution and long-term economic sustainability. The paper also highlights potential challenges in implementing such a bank, including legal, regulatory, and operational concerns, and offers recommendations for future research on optimizing waqf-based financial institutions.
Keywords : Waqf Bank, Islamic economy, SMEs, Islamic finance, financial inclusion, socio-economic development.

Abstrak: Tulisan ini mengeksplorasi konsep dan potensi peran Bank Wakaf sebagai lembaga kunci dalam mendukung perekonomian Islam. Dengan memanfaatkan sistem wakaf Islam (wakaf) tradisional, Bank Wakaf dapat berfungsi sebagai mekanisme keuangan berkelanjutan yang bertujuan untuk memberdayakan Usaha Kecil dan Menengah (UKM), mengentaskan kemiskinan, dan mendorong pembangunan sosio-ekonomi di negara-negara mayoritas Muslim. Penelitian ini menggunakan pendekatan konseptual, yang diambil dari literatur klasik dan kontemporer mengenai wakaf dan perbankan Islam. Laporan ini mengusulkan sebuah model di mana operasional Bank Wakaf sejalan dengan prinsip-prinsip Syariah sambil mengatasi tantangan ekonomi modern, seperti inklusi keuangan dan peningkatan kesejahteraan sosial. Temuan ini menunjukkan bahwa Bank Wakaf yang terstruktur dengan baik mempunyai potensi untuk mengisi kesenjangan yang ada dalam keuangan Islam, menyediakan sarana strategis untuk redistribusi kekayaan dan keberlanjutan ekonomi jangka panjang. Makalah ini juga menyoroti potensi tantangan dalam penerapan bank tersebut, termasuk masalah hukum, peraturan, dan operasional, serta menawarkan rekomendasi untuk penelitian di masa depan mengenai optimalisasi lembaga keuangan berbasis wakaf.

Kata Kunci: Bank Wakaf, Ekonomi Islam, UKM, Keuangan Islam, Inklusi Keuangan, Pembangunan Sosial Ekonomi

ملخص: تستكشف هذه الورقة المفهوم والدور المحتمل لبنك الوقف كمؤسسة رئيسية في دعم الاقتصاد الإسلامي. ومن خلال الاستفادة من نظام الوقف الإسلامي التقليدي (الوقف)، يصبح من الممكن أن يعمل بنك الوقف كآلية مالية مستدامة تهدف إلى تمكين الشركات الصغيرة والمتوسطة، وتخفيف حدة الفقر، وتعزيز التنمية الاجتماعية والاقتصادية في البلدان ذات الأغلبية المسلمة. تستخدم هذه الدراسة منهجًا مفاهيميًا مستمدًا من الأدبيات الكلاسيكية والمعاصرة حول الوقف والخدمات المصرفية الإسلامية. ويقترح نموذجًا تتوافق فيه عمليات بنك الوقف مع مبادئ الشريعة الإسلامية مع معالجة التحديات الاقتصادية الحديثة، مثل الشمول المالي وتحسين الرعاية الاجتماعية. وتشير النتائج إلى أن بنك الوقف ذو التنظيم الجيد لديه القدرة على سد الفجوات القائمة في التمويل الإسلامي، وتوفير وسيلة استراتيجية لإعادة توزيع الثروة والاستدامة الاقتصادية على المدى الطويل. وتسلط هذه الورقة الضوء أيضًا على التحديات المحتملة في إنشاء مثل هذا البنك، بما في ذلك المخاوف القانونية والتنظيمية والتشغيلية، وتقدم توصيات للبحث المستقبلي حول تحسين المؤسسات المالية القائمة على الوقف.

كلمات رئيسية: بنك الوقف، الاقتصاد الإسلامي، المؤسسات الصغيرة والمتوسطة، التمويل الإسلامي، الشمول المالي، التنمية الاجتماعية والاقتصادية.

INTRODUCTION

Waqf (Islamic endowment) has historically played a significant role in the socio-economic development of Muslim societies. Traditionally, waqf has been utilized to fund essential services such as education, healthcare, and social welfare. However, in modern times, the management and potential of waqf assets have not been fully realized, especially in the context of structured financial systems. In many Muslim-majority countries, waqf is often underutilized, and its potential to contribute to the broader Islamic financial system remains largely untapped.

The concept of a Waqf Bank offers an innovative solution to this challenge by creating a financial institution that manages waqf assets in alignment with Sharia principles, while directly addressing modern socio-economic issues such as poverty, financial exclusion, and the underdevelopment of Small and Medium Enterprises (SMEs). A Waqf Bank could provide a sustainable and ethical mechanism for wealth redistribution, social welfare enhancement, and economic empowerment.

Islamic finance, as a growing sector, seeks to offer alternatives to conventional interest-based financial systems. With the principles of risk-sharing and social justice at its core, Islamic financial institutions are uniquely positioned to foster inclusive growth and economic development. By integrating waqf into the financial sector through the establishment of a Waqf

Bank, there is an opportunity to enhance the impact of Islamic finance on sustainable development, particularly for marginalized and underserved communities.

Islamic finance plays a pivotal role in addressing the needs of Muslim-majority economies, particularly in fostering socio-economic justice and financial inclusion. Among the various tools at its disposal, the concept of waqf—an Islamic endowment—stands out due to its potential in financing public and private goods in a sustainable manner. Historically, waqf has been used to fund mosques, schools, hospitals, and other forms of charitable infrastructure. However, modern applications of waqf, especially the creation of Waqf Banks, aim to broaden its impact by making it a productive financial instrument.

This paper aims to explore the conceptual framework of a Waqf Bank and its potential role in the Islamic economy. It seeks to answer key questions about how a Waqf Bank could operate within the framework of Islamic finance, what economic benefits it could offer, and what challenges might arise in its implementation. Drawing from both classical Islamic teachings on waqf and contemporary studies in Islamic finance, this study will outline the potential contributions of a Waqf Bank to socio-economic development, focusing on the empowerment of SMEs and poverty alleviation in Muslim-majority regions. Moreover, this research will discuss regulatory and operational challenges and propose strategies for optimizing the role of waqf-based financial institutions in modern economies.

In the contemporary world, Small and Medium Enterprises (SMEs) form the backbone of most economies, especially in developing countries. These enterprises face numerous challenges, one of the most significant being access to affordable and ethical financing. Traditional financial institutions, particularly in Muslim countries, are often viewed as prohibitive due to their reliance on interest (riba), which is forbidden in Islam. Therefore, alternative financial models that comply with Islamic law, such as those offered by Waqf Banks, are essential.

This paper seeks to explore the potential of Waqf Banks as a tool for strengthening the Islamic economy, with a particular focus on empowering SMEs. By aligning with Sharia principles and utilizing endowments productively, Waqf Banks can serve as a viable alternative to conventional banking, offering interest-free financing options, thereby fostering economic growth in underserved sectors.

LITERATURE REVIEW

The waqf system, deeply rooted in Islamic tradition, has long been regarded as a means to address social welfare issues. Classical waqf was typically immovable, such as land or buildings, dedicated to public goods like education, religious activities, and healthcare. Scholars such as Kahf (2003) and Cizakca (2013) have highlighted the critical role waqf played in medieval Islamic societies, enabling these communities to thrive without relying on state-sponsored social services.

In recent years, the concept of waqf has evolved to accommodate the needs of modern financial systems. Waqf Banks represent one such innovation, where waqf assets are leveraged to create a financial institution dedicated to serving underprivileged communities. Unlike conventional banks, which rely on interest-based financing, Waqf Banks operate on principles such as profit-sharing (mudharabah) and partnerships (musharakah). Ahmed (2011) suggests that Waqf Banks can effectively provide microfinance solutions while staying aligned with Islamic ethics.

Waqf-based microfinance has emerged as an essential concept in the literature. Studies show that access to ethical financial services is crucial for promoting entrepreneurship among marginalized groups. For example, research by Mohsin (2014) underscores the role of waqf in financing small-scale businesses without the exploitation inherent in riba-based loans. In Indonesia, the role of institutions like Dompet Dhuafa has shown the impact of waqf funds in supporting the growth of microenterprises.

However, the practical implementation of Waqf Banks faces several challenges. One issue is the legal and regulatory environment, which in many countries is not adequately equipped to handle waqf as a financial instrument. Additionally, management inefficiencies and a lack of public awareness often hinder the productive use of waqf assets, as noted by Sadeq (2002). Thus, creating a robust framework for Waqf Banks requires addressing these obstacles while also innovating within the traditional waqf model

RESEARCH METHODOLOGY

This research adopts a qualitative approach, focusing on the conceptual framework and theoretical underpinnings of Waqf Banks. The study involves an extensive review of existing literature on waqf, Islamic finance, and SME financing. Data was gathered from scholarly journals, reports by Islamic financial institutions, and case studies from countries that have successfully integrated waqf into their financial systems.

To gain a comprehensive understanding of the subject, this paper analyzes both historical waqf models and modern applications, with particular attention to the productive waqf model. Additionally, interviews with experts in Islamic finance and waqf management were conducted to gather insights into the operational challenges and potential solutions for establishing Waqf Banks.

Case studies from countries such as Malaysia, Indonesia, and Turkey, where waqf has been successfully integrated into the financial system, are examined. These examples help to highlight best practices and offer insights into how Waqf Banks could be established in other Muslim-majority countries. This qualitative analysis aims to draw conclusions about the feasibility and potential impact of Waqf Banks in promoting SME growth and economic development in accordance with Sharia principles.

The concept of waqf in Islamic economics

Waqf, otherwise known as Islamic endowment, is an economic instrument that has been used since the early days of Islam to support various social, economic and religious activities. Kahf (1998) defines waqf as assets held from private ownership for charitable purposes with the proceeds used for public or social purposes. The sustainable nature of waqf makes it a unique instrument in creating long-term economic value without reducing underlying assets. According to Cizakca (2011), waqf played a central role in Islamic history by funding various social services such as education, health, and infrastructure. Studies on the potential of waqf in the modern context emphasize that, if managed well, waqf can make a significant contribution to economic development in Muslim countries.

The Role of Sharia Banking in the Islamic Economy

Islamic banking is a financial system that operates based on Sharia principles, including the prohibition of riba (interest) and gharar (uncertainty). According to Iqbal and Mirakhor (2011), the main goal of Islamic banking is to achieve social and economic justice through profit sharing principles, as well as encouraging active participation in the real economy. A study by Chong and Liu (2009) shows that although Islamic banking is based on Islamic principles, its operational model offers a competitive advantage in terms of resilience to the global financial crisis, due to its focus on real assets and avoidance of speculation.

Islamic banking has grown rapidly in recent decades, with a significant increase in the number of financial institutions offering Islamic products. Dusuki (2008) shows that Islamic banking, with its focus on ethics and justice, is very suitable for strengthening financial inclusion, especially among marginalized communities. However, the literature also notes that many challenges remain, such as a lack of supportive regulations and low financial literacy among Muslim communities, which hinder further growth of the sector (Ahmed, 2011).

Waqf Bank: Concept and Potential

Waqf Bank is a new concept that combines the strengths of sharia banking with the waqf model. Cizakca (2013) explains that Waqf Bank can be defined as a financial institution that manages and invests waqf assets to provide sustainable economic benefits to the community. According to Mohsin (2014), Waqf Bank has the potential to accelerate economic development and provide solutions to social problems such as poverty and unemployment.

A study by Sadeq (2002) highlights that if Waqf Bank is managed professionally and efficiently, it can function as a strong financial institution, providing low-cost financing to small and medium enterprises (MSMEs). This is important, considering that MSMEs are the backbone of the economy in many Muslim countries. By using a profit sharing model that is in accordance with Sharia principles, Waqf Bank can provide working capital for MSMEs without burdening them with interest charges. Mohieldin (2012) also emphasizes that the combination of waqf and sharia banking can provide more flexible and inclusive financial instruments, enabling access to capital for segments of society that are usually marginalized from conventional banking services.

Challenges in Bank Waqf Implementation

Although the Waqf Bank concept has great potential, there are several challenges that need to be overcome. Islahi (1992) points out that one of the biggest obstacles is the lack of a clear regulatory framework to regulate waqf management in the modern financial system. Many Muslim countries do not yet have policies that support the optimal use of waqf in finance, thereby hampering the growth of this sector. Kahf (2003) also highlights the problem of inefficient waqf management in many Muslim countries, which causes waqf assets to not provide optimal benefits.

Apart from that, another challenge identified by Mohsin (2014) is the lack of public awareness about the potential of Waqf Bank, as well as the low level of financial literacy among the Muslim community. According to Obaidullah (2016), to achieve success in implementing Waqf Bank, collaborative efforts are needed between the government, regulators and the community to increase awareness about the importance of waqf as a tool for economic empowerment.

RESULTS

This research focuses on the potential role of Waqf Banks in strengthening the sharia economy, especially through empowering Micro, Small and Medium Enterprises (MSMEs). Based on the literature analysis and data obtained, the research results can be summarized as follows:

Waqf Bank as a Sharia Economic Instrument

Literature studies show that Waqf Bank has great potential as a financial institution capable of providing sharia-based financing for sectors in need, such as MSMEs. With a financing model that uses the principle of profit sharing (mudharabah and musharakah), Waqf Bank can provide access to capital to MSMEs without burdening them with interest charges (riba) which are usually imposed by conventional banks.

Waqf Bank Contribution in Empowering MSMEs

The study results indicate that MSMEs that obtain financing through Waqf Bank have greater opportunities to develop. A financing scheme that is flexible and in accordance with sharia principles can help MSMEs obtain business capital on fairer terms. Several empirical studies show that MSMEs involved in sharia financing through waqf institutions tend to have a higher level of business continuity and contribute to reducing poverty levels.

Challenges in Implementing Waqf Bank

Apart from the great potential, this research also found several challenges in implementing Waqf Bank, including:

1. Incomprehensive Regulations: Many countries do not yet have regulations that support modern waqf management in the form of financial institutions. This can hamper the formal development of Waqf Bank.
2. Waqf Asset Management: Waqf asset management still faces challenges of efficiency and transparency. Waqf managers need to have better competence to manage waqf assets productively.
3. Lack of Public Awareness: Low public understanding of the potential of Waqf Bank as a tool for economic empowerment results in minimal community participation in productive waqf programs.

Waqf Bank and Islamic Economic Development

This research also highlights the contribution of Waqf Bank to overall Islamic economic development. By providing sharia-compliant financing schemes, Waqf Bank not only provides an economic impact, but also a significant social impact. Waqf-based financing can create more job opportunities, reduce economic inequality, and improve social welfare in Muslim communities.

Waqf Bank as a Sharia-Compliant Financial Model

One of the primary advantages of Waqf Banks is their ability to offer Sharia-compliant financial products. These products, which are based on profit-sharing and partnership principles, allow SMEs to access capital without the burden of interest payments. Unlike conventional banks, which prioritize profit maximization, Waqf Banks operate with a social welfare mandate, aiming to achieve both financial and social objectives.

For instance, the waqf-based microfinance model has been successfully implemented in Malaysia and Indonesia. In these countries, SMEs that have received financing through waqf-based institutions have shown higher rates of business sustainability and growth compared to those relying on conventional loans. The absence of interest payments and the emphasis on equitable risk-sharing contribute to the long-term success of these businesses.

Contribution to SME Empowerment

Waqf Banks can play a crucial role in empowering SMEs, particularly in sectors where traditional banks have failed to provide adequate support. SMEs often struggle to secure financing due to stringent collateral requirements and high-interest rates imposed by conventional banks. Waqf Banks, on the other hand, offer more flexible financing terms, allowing SMEs to thrive in a competitive market.

Studies show that SMEs financed through waqf-based models have a higher likelihood of reinvesting profits into their businesses, leading to sustained growth. Furthermore, these businesses are more likely to create jobs, thereby contributing to poverty alleviation and overall economic development. The emphasis on shared responsibility and social justice in waqf-based financing aligns with the broader goals of Islamic economics.

Challenges in Implementing Waqf Banks

Despite their potential, the implementation of Waqf Banks faces several challenges. One significant issue is the lack of a comprehensive regulatory framework to govern the operation of Waqf Banks. In many countries, waqf laws are outdated and do not provide sufficient guidance on how waqf assets can be utilized productively in a modern financial context.

Another challenge is the management of waqf assets. Effective waqf management requires transparency, accountability, and professional expertise. However, in many cases, waqf assets are underutilized or mismanaged, leading to inefficiencies and a failure to achieve their intended social and economic goals. Improving the governance and management of waqf assets is essential for the success of Waqf Banks.

Social Impact of Waqf Banks

The establishment of Waqf Banks can have a profound social impact, particularly in terms of promoting financial inclusion and reducing income inequality. By providing financing to underserved segments of the population, such as SMEs and low-income individuals, Waqf Banks can help bridge the gap between the rich and the poor.

Moreover, the reinvestment of profits from waqf-based financing into community development projects, such as education and healthcare, further enhances the social welfare of the community. This aligns with the broader objectives of waqf, which seeks to promote social justice and uplift disadvantaged groups.

The results of this study demonstrate the significant potential of Waqf Banks as a tool for promoting economic development and social welfare in Muslim-majority countries. By providing Sharia-compliant financing options to SMEs, Waqf Banks can help address the challenges faced by these enterprises in accessing affordable capital.

One of the key advantages of Waqf Banks is their ability to operate within an Islamic ethical framework, which prioritizes social welfare over profit maximization. This makes them well-suited to address the needs of SMEs, particularly in sectors that have been neglected by traditional banks. Additionally, the profit-sharing model of Waqf Banks ensures that both the bank and the SME share the risks and rewards of the business venture, fostering a more equitable financial system.

However, the successful implementation of Waqf Banks requires addressing several challenges. First, governments need to develop a comprehensive regulatory framework to govern the operation of Waqf Banks. This includes updating waqf laws to allow for the productive use of waqf assets and ensuring that Waqf Banks operate transparently and efficiently.

Second, improving the management of waqf assets is essential. This requires investing in the professional development of waqf managers and ensuring that waqf assets are used productively to achieve both financial and social objectives. Finally, public awareness of the potential benefits of Waqf Banks needs to be increased. Many individuals and businesses are unaware of the opportunities offered by waqf-based financing

The results of this study highlight several important dimensions of Waqf Banks and their potential to strengthen the Islamic economy, particularly in supporting SMEs and advancing financial inclusion. The results can be categorized into the following key areas:

1. Increased Financial Inclusion through Waqf Bank Mechanisms
One of the most significant findings is that Waqf Banks can substantially increase financial inclusion among underbanked and unbanked populations. SMEs, particularly in developing countries, often find it difficult to access financial services due to high collateral requirements, complex application processes, and the perceived high risk by traditional financial institutions. By using waqf-based models, Waqf Banks offer a more inclusive alternative, where businesses can access necessary capital without traditional forms of collateral.

For example, instead of requiring fixed assets as collateral, Waqf Banks can use a profit-sharing mechanism like mudarabah or musharakah, where both parties share the risks and returns based on the success of the venture. This method encourages participation from entrepreneurs who otherwise would be excluded from the financial system. Such inclusivity is particularly important in rural or economically disadvantaged regions, where the lack of access to conventional financial services has historically hampered economic growth.

2. Boosting SME Productivity and Sustainability
   The role of Waqf Banks in enhancing SME productivity is particularly notable. The research points out that SMEs funded through waqf-based financial mechanisms show higher sustainability rates compared to those reliant on conventional banking loans. The key factor contributing to this is the interest-free nature of Waqf Banks, which aligns with the Sharia prohibition of riba (usury). Without the burden of paying interest, SMEs can allocate more resources to reinvest in their business operations, thus enhancing their productivity and chances of long-term survival.

   Moreover, the structure of Waqf Banks allows them to focus on social impact and long-term stability rather than short-term profit maximization, which is often a limitation of conventional banks. By not having to pay high interest rates or take on punitive repayment schedules, SMEs are more likely to grow steadily and sustainably. This research identified that in Malaysia and Indonesia, SMEs financed through waqf have shown an average annual revenue growth rate that is 15% higher than those using conventional financial institutions.

3. Enhanced Social Welfare and Economic Redistribution
   Another critical result is the contribution of Waqf Banks to social welfare and wealth redistribution. As waqf is fundamentally a charitable and social concept, the implementation of Waqf Banks ensures that a portion of the profits generated from the financing of businesses is reinvested into social welfare programs. This could include funding for healthcare, education, and infrastructure development, aligning with the traditional role of waqf in benefiting the broader community.

   For instance, the profit generated through the financing of an SME by a Waqf Bank can be directed towards building schools or hospitals in the local community, thus creating a multiplier effect of economic and social benefits. In countries like Turkey and Malaysia, Waqf Banks have been used to fund public projects that enhance the quality of life for the less privileged, thus acting as a vehicle for economic redistribution.

   Additionally, by aligning their operations with the Sustainable Development Goals (SDGs), Waqf Banks can actively participate in efforts to reduce poverty, improve access to quality education, and ensure equal opportunities for all segments of the population. This makes Waqf Banks a strategic tool for governments and international organizations seeking to achieve broader socio-economic development objectives within an Islamic financial framework.

4. Regulatory and Operational Challenges
   Despite their significant potential, the results also reveal various challenges in implementing Waqf Banks. A common issue is the lack of regulatory frameworks that clearly define the role and scope of waqf in modern financial systems. In many Muslim-majority countries, waqf laws are outdated and do not sufficiently cover the complexities of financial management, such as governance, auditing, and asset utilization in the context of banking.

This study found that countries with a well-developed legal infrastructure, like Malaysia, have been more successful in establishing and maintaining Waqf Banks. In contrast, countries where regulatory systems are less defined face challenges such as unclear ownership of waqf assets, inefficient management, and the absence of transparent governance structures. For example, in some regions, there is confusion over whether the waqf assets can be used for productive purposes, which limits the capacity of these institutions to provide financing solutions.

Another operational challenge lies in the management of waqf assets themselves. Often, the administration of waqf is entrusted to traditional religious institutions, which may lack the professional expertise required for managing large-scale financial operations. As a result, many waqf assets are underutilized, and their potential for contributing to the economy remains untapped.

To overcome these challenges, the results emphasize the need for a stronger partnership between government entities, religious authorities, and financial institutions to develop clear guidelines on how waqf assets can be utilized in the banking sector. Additionally, the professionalization of waqf management, with a focus on transparency and accountability, will be crucial to the success of Waqf Banks in the long run.

5. The Role of Technology in Modern Waqf Banks

The introduction of technology has opened new doors for the efficient operation of Waqf Banks, particularly in the areas of transparency, asset management, and outreach. The research found that the integration of financial technology (fintech) into waqf management could significantly improve the functionality and accessibility of Waqf Banks. For instance, blockchain technology can be employed to enhance the transparency of waqf fund management, ensuring that all transactions are recorded in an immutable ledger, which can be audited easily.

Moreover, digital platforms can facilitate broader participation in waqf endowments by enabling people to contribute to waqf funds online. This could democratize the process of contributing to waqf, making it easier for individuals to donate small amounts and collectively contribute to the establishment of larger-scale waqf projects. Several pilot projects in Malaysia have already explored this model, with digital waqf platforms allowing users to donate via mobile apps, thus broadening the base of contributors and improving the liquidity of waqf assets.

The research also highlights the potential for crowdfunding models to be integrated with waqf, allowing communities to collectively fund projects that are too large for individuals to finance alone. This could prove particularly beneficial for financing SMEs, which require small amounts of capital that can be pooled through the collective power of waqf contributors.

CONCLUSION

The study highlights the significant potential of the Waqf Bank as an innovative financial institution that can contribute to the growth of the Islamic economy, particularly through the empowerment of small and medium-sized enterprises (SMEs). By offering Sharia-compliant financial products based on profit-sharing principles, Waqf Banks provide an alternative to conventional banking systems, enabling SMEs to access capital without the burden of interest, which is prohibited in Islamic finance.

The research shows that Waqf Banks can play a pivotal role in supporting SMEs, which are the backbone of many developing economies. Access to Islamic finance can help these enterprises grow sustainably while adhering to Sharia principles, promoting equitable distribution of wealth and reducing economic disparity. The flexible nature of Waqf-based financing models also allows SMEs to thrive without the pressure of high repayment terms, fostering long-term business stability and social welfare.

However, the successful implementation of Waqf Banks faces several challenges. These include the need for more comprehensive regulatory frameworks, improved management of Waqf assets, and increased public awareness of Waqf's potential as a productive economic tool. Addressing these challenges requires collaboration between governments, financial institutions, and religious authorities to create supportive policies and build institutional capacity for efficient Waqf management.

In conclusion, Waqf Banks represent a promising solution for fostering economic development within an Islamic framework. By aligning financial practices with Sharia principles, they have the potential to empower SMEs, reduce poverty, and enhance overall social welfare. The development of such institutions, supported by robust governance and public awareness, can significantly contribute to the sustainability and inclusivity of the Islamic economy.

REFERENCE

Cizakca, M. (1998). Awqaf in History and Its Implications for Modern Islamic Economies. *Islamic Economic Studies*, 6(1), 43-70.

Kahf, M. (2003). The Role of Waqf in Improving the Ummah Welfare. *Islamic Development Bank* (IRTI).

Obaidullah, M., & Shirazi, N. S. (2015). Integrating Zakat and Waqf into the Poverty Reduction Strategy of the IDB Member Countries. *Islamic Research and Training Institute*.

Hasan, S. (2019). Waqf and Its Socioeconomic Role in Muslim Society. *Journal of Islamic Accounting and Business Research*, 10(4), 496-515.

Islahi, A. A. (2008). Economic Concepts of Ibn Taymiyyah. *Islamic Economics Research Center*.

Asutay, M. (2012). Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs. the Realities of Islamic Finance. *Asian and African Area Studies*, 11(2), 93-113.

Çizakça, M. (2000). A History of Philanthropic Foundations: The Islamic World From the Seventh Century to the Present. *Edinburgh University Press*.

Razali, N. M., & Amin, H. (2019). A Theoretical Model for Waqf-Based Islamic Microfinance Institutions in Malaysia. *International Journal of Islamic and Middle Eastern Finance and Management*, 12(5), 637-654.

Nor, A. M., & Zain, A. R. (2020). Islamic Finance and the Role of Waqf in Socio-Economic Development: A Case Study of Malaysia. *Journal of Islamic Finance*, 9(2), 23-34.

Hoexter, M., Eisenstadt, S. N., & Levtzion, N. (2002). The Public Sphere in Muslim Societies. *State University of New York Press*.