

MICRO WAQF BANK INNOVATION MODELS IN ACEH

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ABSTRACT – This study investigates the challenges and opportunities associated with utilizing cash waqf to support economic development in Aceh, Indonesia, employing the innovative Micro Waqf Bank model. Data was collected through in-depth interviews with seven Waqf management experts in Aceh, selected using purposive sampling. Leveraging the Analytical Network Process (ANP), the study identifies key problems in the development of cash waqf practices, including economic challenges such as capital sourcing, financing repayment delays, and monitoring-mentoring costs. From a social perspective, the study emphasizes the importance of synergy among institutions, public awareness, and effective socialization. Institutional issues include human resource professionalism, regulatory suitability, Micro Waqf Bank limitations, and the need for digitalization. Legal and governance aspects focus on regulations supporting capital financing for small enterprises and efficient managerial management. The study proposes an inclusive, adaptive, participatory, and integrated Micro Waqf Bank Innovation Model to optimize cash waqf utilization and support real sector economic growth. Suggestions for improvement involve technological infrastructure, human resource training, regulatory adjustments, capital management, monitoring systems, strategic partnerships, socialization, coordination, product diversification, and community participation, providing a comprehensive model for the development of Micro Waqf Banks in Aceh.

Keywords: Cash Waqf, Micro Waqf Bank, Economic Growth, Regulation, Socialization

ABSTRAK – Model Inovasi Bank Wakaf Mikro di Aceh. Penelitian ini mengkaji tantangan dan peluang pengembangan praktik wakaf tunai untuk mendukung pembangunan ekonomi di Aceh melalui model inovasi Bank Wakaf Mikro di Aceh. Data penelitian dikumpulkan melalui wawancara mendalam dengan tujuh pakar bidang manajemen wakaf di Aceh, yang dipilih dengan metode sampling purposif. Hasil analisis aplikasi Analytical Network Process (ANP), penelitian ini mengidentifikasi sejumlah persoalan kunci dalam pengembangan wakaf tunai, seperti tantangan ekonomi terkait sumber modal, keterlambatan pembayaran pembiayaan, dan biaya pemantauan/mentoring. Secara sosial, kajian ini menggarisbawahi pentingnya sinergi antar lembaga, kesadaran masyarakat, dan sosialisasi. Aspek institusional melibatkan isu-isu seperti profesionalisme sumber daya manusia, regulasi yang sesuai, keterbatasan Bank Wakaf Mikro, dan digitalisasi. Aspek hukum dan tata kelola berfokus pada regulasi yang mendukung, pembiayaan modal untuk usaha mikro dan ultra-mikro, dan manajemen manajerial. Solusi telah diidentifikasi untuk setiap aspek, mencapai proposal model Inovasi Micro Waqf Bank yang inklusif, adaptif, partisipatif, dan terintegrasi untuk mengoptimalkan pemanfaatan waqf tunai dan mendukung pertumbuhan ekonomi sektor riil. Saran untuk perbaikan melibatkan infrastruktur teknologi, pelatihan sumber daya manusia, penyesuaian regulasi, manajemen modal, sistem pemantauan, kemitraan strategis, sosialisasi, koordinasi, diversifikasi produk, dan partisipasi masyarakat, sehingga memberikan model komprehensif untuk pengembangan Bank Wakaf mikro di Aceh.

Kata Kunci: Wakaf tunai, Bank Wakaf Mikro, Pertumbuhan Ekonomi, Regulasi, Sosialisasi

INTRODUCTION

Eradicating poverty is a complex and multifaceted challenge demanding collaborative efforts from governments, communities, and innovative financial solutions. In Indonesia, poverty remains a persistent issue, with 26.16 million people, or 9.57% of the population, classified as poor in March 2022 (BPS, 2023). This problem is particularly pronounced in Aceh, where poverty rates, despite declining from 17.11% in 2015 to 15.53% in 2021 (BPS, 2023), still exceed the national average. The province's economic well-being has been significantly affected by historical factors like armed conflict and natural disasters, further compounded by the COVID-19 pandemic (Bank_Indonesia, 2023).

Recognizing the limitations of traditional approaches, the Indonesian government is actively promoting the Islamic economy and finance sector as a potential driver of economic development (Wartoyo & Haida, 2023). This initiative includes the National Movement for Cash Waqf, which aims to raise public awareness and education regarding Islamic finance, considering the low literacy rate of 16.2% in this area (BPS, 2023). Additionally, the government seeks to strengthen regulations and foster collaboration to address poverty and social inequality.

Cash waqf, a charitable endowment in the form of cash, presents a unique opportunity to empower communities and stimulate economic growth. In Aceh, this potential can be harnessed through the establishment of micro waqf banks (*Bank Wakaf Mikro - BWM*) as Islamic microfinance institutions. These institutions can leverage cash waqf as capital to provide financial services and empower micro and ultra-micro businesses, fostering financial inclusion and contributing to poverty reduction (Ibrahim, 2023b).

However, the current BWM model faces limitations in accessibility, product innovation, and adaptability to evolving community needs. To address these limitations and unlock the full potential of cash waqf, revitalization efforts are crucial. This research proposes a novel BWM model that is inclusive in terms of capital sources, allowing both individuals and legal entities to contribute cash waqf. It is participatory in its institutional structure, encouraging collaboration among stakeholders for efficient management (Battal & Ibrahim, 2023). It is transformative in its legal and governance aspects, ensuring compliance with Islamic principles and fostering good governance practices. This research



investigates the adaptation of cash waqf and BWM models for poverty reduction specifically within the context of Aceh, which has not been thoroughly explored before.

Existing research has explored the potential of micro waqf banks and cash waqf for economic development, such as Hasiba et al. (2021), Soemitra et al. (2022), Ascarya et al. (2022), Yusgiantoro et al. (2024), Haneef et al. (2015), and Wulandari (2019). However, there is a gap in understanding how to adapt these concepts to the specific context of Aceh. The limitations of current BWM models regarding accessibility (Disemadi & Roisah, 2019; Zahara, 2022), product innovation (Hasanah & Hayati, 2020; Mulyati & Harrieti, 2021), and adaptability have not been extensively studied in the context of their impact on poverty reduction (Amin et al., 2023; Ulum, 2022; Yasniwati, 2023). There is also a lack of research on how to design a BWM model that simultaneously adheres to Islamic principles, fosters effective governance, and caters to the evolving needs of the Acehnese community (Harianto et al., 2023).

The significance of this research lies in its potential to contribute to poverty reduction in Aceh. By empowering micro and ultra-micro businesses through access to financial services facilitated by a novel BWM model, it could demonstrably strengthen the Islamic financial ecosystem within Aceh. This reinforcement could be achieved through the promotion of cash waqf and the subsequent fostering of Islamic microfinance institutions' (IMFIs) growth. Additionally, this investigation offers valuable insights into the development and adaptation of BWM models in diverse contexts. Furthermore, it has the potential to enhance the implementation of Qanun No. 11/2018 on Islamic Financial Institutions in Aceh, particularly with regards to the role played by IMFIs. The successful implementation of a new BWM model in Aceh, serving as a showcase for Indonesia, could potentially inspire similar advancements in other regions.

This present study is structured into five distinct sections. The introductory portion establishes the context by outlining the study's novelty, identifying research gaps, and highlighting its significance. Subsequently, the second section delves into the existing literature relevant to the research field. The methodology employed in the study is then meticulously explained in the third section. The fourth section presents the obtained results, followed by a critical discussion that critically analyzes them and establishes connections to the referenced literature and prior research endeavors. Finally, the concluding



section summarizes the key findings, underscores its contribution to the field, acknowledges any limitations, and proposes avenues for further research.

LITERATURE REVIEW

Waqf

The term "*waqf*" derives linguistically from the verb "*waqafa-yaqifu*," signifying "to stop" (Quddus & Hasib, 2023). This concept often finds equivalence with "*al-tahbis*" or "*al-tasbil*," which translate to "*al-habs*" and "*tasarruf*," respectively, implying the act of hindering management (Ghazali & Mamat, 2023). However, various schools of Islamic jurisprudence (*madhhabs*) hold differing opinions regarding specific aspects, including the perpetuity of waqf assets and the essence of the object itself, whether the focus lies on utility or tangible assets (Ibrahim, 2023a). Defined in legal terms, waqf signifies a legal action where a donor (*waqif*) segregates and/or relinquishes a portion of their property for permanent or temporary use, adhering to Sharia principles, in support of religious purposes or public welfare (Arabi, 2022).

Complementing existing forms of charitable giving like zakat, infaq, and shadaqah, waqf serves as a significant potential source for social funds (philanthropy). The practice has been present and observed in Indonesia since the arrival of Islam (Ismail et al., 2023). As a religious institution, waqf intertwines with both social and economic aspects. Some studies suggest the feasibility of implementing a cash waqf model through the involvement of Baitul Mal wa Tamwil (BMT) as the *nazir* (administrator) who also functions as a recipient via Sharia Microfinance Institutions (MFIs) (Ascarya et al., 2022; Ascarya & Masrifah, 2023; Ascarya et al., 2023). Other studies further highlight the substantial contribution of waqf to holistic development in Indonesia, encompassing both human resource and social resource development (Lestari et al., 2023; Pitchay et al., 2023; Putra et al., 2023).

Synthesizing the various definitions presented, one can conclude that waqf entails the act of retaining a portion of one's assets for their designated use in fulfilling societal interests. Additionally, waqf encompasses the empowerment of micro, small and medium enterprises (MSMEs) as a crucial aspect, where the generated revenue can uplift community well-being.



Cash Waqf

Cash waqf (*waqf al-nuqud*) refers to the act of donating cash for designated purposes, practiced by individuals, groups, institutions, or legal entities (Aldeen et al., 2020; Fanani & Abduh, 2023). It serves as an instrument for raising public funds dedicated to public welfare (Razak, 2020). In addition, cash waqf involves productively managed monetary assets (Amaliah, 2020; Qurrata et al., 2021). Its key strengths lie in its voluntary nature, potential for long-term sustainability (Kamaluddin, 2021), and extensive reach (Saiti et al., 2021). The core asset of cash waqf is money, which must be preserved in value, with the generated proceeds benefiting the designated beneficiaries (*mawquf alaih*) (Ab Rahman et al., 2024). Indonesia holds immense potential for cash waqf, offering a promising avenue to address economic challenges, including those faced by MSMEs (Wahab et al., 2022).

Cash Waqf Management and Empowerment

Cash waqf collected by the "*nazir*" (administrator) is utilized for empowerment programs and invested in Sharia-compliant and profitable ventures. The generated income is then distributed to the beneficiaries (*mawquf alaih*) (Al Faruqi, 2022; Syara, 2021). Research suggests that the optimal cash waqf model for Baitul Mal wa Tamwil (BMT) involves its dual role as both the *nazir* (waqf manager) and the recipient of cash waqf for Islamic financial institutions (*Lembaga Keuangan Syariah Penerima Wakaf Uang - LKSPWU*) (Ascarya et al., 2022).

Ascarya et al. (2023), indicate that cash waqf managed by independent IMFIs demonstrates superior outcomes in achieving socio-economic empowerment, improving welfare, and fostering ethical conduct grounded in the principle of *Tawhid* (oneness of God). Furthermore, cash waqf empowers IMFIs to play a more significant role in community development (Ascarya & Masrifah, 2023)

Cash waqf offers distinct advantages for MSMEs, as it can be directly used as additional capital or to enhance their productivity and growth (Al Fares et al., 2022; Alam et al., 2018; El Ashfahany & Lestari, 2023). Compared to waqf in the form of immovable assets, cash waqf provides greater flexibility for MSMEs in its application (Awalluddin, 2022; Hakim et al., 2024; Mafaza et al., 2020).



Micro Waqf Bank

Micro waqf bank (*Bank Wakaf Mikro - BWM*) is a non-bank financial institution established under Law of the Republic of Indonesia No. 1/2013 concerning microfinance institutions. The name BWM reflects its collaborative foundation between the government and the *pesantren* (Islamic boarding schools) in Indonesia. BWM prioritizes both capital preservation and maximizing benefits, and operates within the *pesantren* environment (Faiza, 2021; Fauzi et al., 2022).

BWM's business model targets the empowerment of low-income individuals engaged in economic activities who face challenges accessing formal financial institutions (Fauzi, Priatno, et al., 2023; Fauzi & Widana, 2022). BWM focuses on providing mentorship and microfinancing to individuals demonstrating entrepreneurial potential (Fauzi, Haji-Othman, et al., 2023). Its income is derived from profit sharing on Sharia deposits, returns from disbursed financing, and other service fees (Izza & Mi'raj, 2023).

The Financial Services Authority of Indonesia (*Otoritas Jasa Keuangan - OJK*) outlines several crucial functions of BWM, including: 1) Providing business capital to the community, 2) Offering training and mentorship in business development, 3) Enhancing financial literacy and inclusion within communities, and 4) Contributing to the reduction of social inequality and poverty. BWM emphasizes a community-driven service system, avoiding exploitative lending practices, offering interest-free and collateral-free financing, and employing a profit-sharing margin system with a 3% rate (Subkhan et al., 2023).

Yusgiantoro et al. (2024) highlights the significance of BWM's characteristics, governance structure, and social capital in shaping its sustainability, performance, and risk management. BWM plays a vital role in bolstering the economies of small communities and providing financial solutions for individuals facing difficulties obtaining collateral for loans from conventional banks. As an Islamic microfinance institution, BWM grants access to capital for those excluded from formal financial institutions, aiming to improve their well-being and empower them to manage their businesses and economic resources independently. BWM contributes to addressing



METHODOLOGY

Research Design

This research adopts an empirical approach, utilizing unstructured in-depth interviews as the primary data collection method. Literature review serves as the secondary data source. Interviews were conducted with individuals possessing in-depth knowledge of cash waqf management within the context of Aceh. This strategy aimed to gather accurate and comprehensive information regarding the performance of cash waqf management in the region.

Sampling

The research employs a non-probability sampling technique, specifically purposive sampling. This signifies that the selection of informants is not random but conducted deliberately based on specific criteria. In the context of the Analytical Network Process (ANP) method (Rusydziana & Devi, 2014), the size of the sample is not the primary concern. Instead, the emphasis lies on selecting individuals with relevant expertise and knowledge pertaining to cash waqf issues in Indonesia.

This study engaged with seven informants, comprising representatives from Indonesian Ulama Council (*Majelis Permusyawaratan Ulama - MPU*), Indonesian Financial Service Authority (*Otoritas Jasa Keuangan - OJK*), the Indonesian Waqf Board (*Badan Wakaf Indonesia - BWI*), academia, banking institutions, the Aceh Provincial Official - Ministry of Religious Affairs, and practitioners from the Micro Waqf Bank. The selection prioritized individuals possessing the necessary understanding and competence in the context of researching the Micro Waqf Bank Innovation Model for optimizing cash waqf utilization.

Model Construction

The ANP model was constructed empirically through the use of questionnaires distributed to cash waqf experts and practitioners (Rusydziana et al., 2023). Additionally, unstructured interviews were conducted to acquire in-depth information and gain a deeper understanding of existing challenges (Triyawan, 2023). This approach was supplemented by a review of relevant literature related to the BWM Innovation Model for optimizing cash waqf utilization.



Model Calibration

The model employs a quantification method. This involves questions in the questionnaire that require pairwise comparisons between elements within a cluster. The purpose of these comparisons is to assess which element holds greater influence and the extent of that influence, utilizing a numerical scale ranging from 1 to 9. The evaluation results from the pairwise comparisons are then aggregated and inputted into the ‘Super Decisions’ software for further processing. This process generates outputs in the form of priority vectors and supermatrices, which provide insights into the comparative analysis and the level of influence among various elements.

Table 1. Comparison of Verbal Scale and Numerical Scale

Definition	Intensity of Importance
• Extreme Importance	9
• For Compromises Between the Above Values	8
• Very Strong and Demonstrated Importance	7
• For Compromises Between the Above Values	6
• Strong Importance	5
• For Compromises Between the Above Values	4
• Moderate Importance	3
• For Compromises Between the Above Values	2
• Equal Importance	1

Data Analysis

Analytical Network Process (ANP)

The Analytical Network Process (ANP) is a multi-criteria decision-making (MCDM) technique used for complex decision problems involving multiple criteria and alternatives (Asadabadi et al., 2019). It facilitates comparisons based on the relative importance of various criteria, sub-criteria, and alternatives within a decision network. In this study, ANP is employed to determine the optimal strategies for utilizing cash waqf to alleviate poverty in Indonesia. The ANP analysis aims to prioritize various strategies based on their potential impact and contribution to poverty reduction (Taherdoost & Madanchian, 2023).



Kendall's Coefficient of Concordance (W)

Kendall's Coefficient of Concordance (W) is a non-parametric statistic used to assess the level of agreement among multiple raters providing ordinal rankings (Kendall & Smith, 1939). It measures the degree to which the rankings assigned by different raters are consistent with each other. In this research, Kendall's W will be calculated to evaluate the agreement between respondents regarding their assessment of the various strategies for cash waqf utilization. The calculation of Kendall's W involves the following steps:

1. Calculate the U-value: This is the average score assigned to each element (criterion, sub-criterion, or alternative) by all respondents. It is calculated by summing the scores given by all respondents for each element and dividing by the total number of respondents (p).
2. Calculate the S value: This represents the sum of squared deviations between each respondent's score and the average U-value for each element. The formula for S is:

$$S = (T_1 - U)^2 + (T_2 - U)^2 + \dots + (T_p - U)^2$$

where T_i represents the total priority ranking assigned to an element by the respondent.

3. Calculate the MaxS value: This represents the maximum possible value of S, assuming complete disagreement among respondents. It is calculated by considering the squared differences between all possible ranking values for each element and multiplying by the number of respondents (p). The formula for MaxS is:

$$\text{MaxS} = (n - U)^2 + (2n - U)^2 + \dots + (pn - U)^2$$

where n represents the number of possible ranking values for each element.

4. Calculate the W value: This is the Kendall's Coefficient of Concordance, obtained by dividing the S value by the MaxS value:

$$W = S / \text{MaxS}$$

The W value ranges from 0 (indicating complete disagreement) to 1 (indicating perfect agreement) among the raters.



Data Analysis Software

Data analysis will be facilitated by two software programs. Super Decisions software, specifically designed for ANP analysis, will be employed to conduct pairwise comparisons and determine the relative weights assigned to various criteria and alternatives within the decision network. Additionally, Microsoft Excel, a widely used spreadsheet software, will be utilized to calculate Kendall's W coefficient for assessing rater agreement and to perform other descriptive statistical analyses necessary for data exploration and interpretation.

RESULTS AND DISCUSSIONS

This research aimed to develop an innovative BWM model for optimizing the utilization of cash waqf funds in the Aceh province of Indonesia. The ANP method was used to analyze data from various stakeholders, including representatives from MPU, OJK, the Indonesian Waqf Board (*Badan Wakaf Indonesia - BWI*), academics, Islamic banks, religious authorities, and practitioners involved with Micro Waqf Banks.

Results

The results obtained from informants statistically indicate their perspectives on the Micro Waqf Bank Innovation Model for optimizing cash waqf utilization. Priority aspects within the criteria highlight external problems as the primary focus for model development, accounting for 59% of the respondents' opinions. Internal problems were identified as the next important area, garnering 41% of the responses.

Table 2. Key Aspects and Geometric Mean

Key Aspects	Geometric Mean
External	0.59177
Internal	0.40823
<i>Economic problems</i>	
1. Monitoring/mentoring costs	0.25235
2. Delay in repayment of financing	0.31234
3. Source of BMW capital	0.43531
<i>Social problems</i>	
1. Inter-agency synergy	0.48496
2. Socialization to the community	0.23292
3. Community awareness of BWM	0.28212
<i>Institutional issues</i>	



Key Aspects	Geometric Mean
1. Professionalism of human resources	0.43313
2. The existence of BWM is still small	0.22156
3. Digitalization of BWM	0.12347
4. Inconsistency of regulation towards BWMs	0.22184
<i>Legal & governance issues</i>	
1. Regulations that support BWM	0.45912
2. Capital financing to MSMEs	0.32522
3. Managerial management	0.21566
<i>Economic solution</i>	
1. Cost-efficiency in monitoring/customer assistance implementation	0.18036
2. Adding a supervisor team to assist MSMEs	0.33480
3. Changing the BWM capital pattern to be inclusive	0.48484
<i>Social solution</i>	
1. Building synergy between institutions	0.43531
2. Socializing the BWM program to the community	0.31235
3. Providing education related to usury prohibition and BWM excellence	0.25234
<i>Institutional solution</i>	
1. Organizing training for BWM supervisors	0.33645
2. Establish bwm in every pesantren	0.25525
3. Create digital-based BWM features	0.21752
4. Performing product innovation	0.15078
<i>Legal & governance solutions</i>	
1. Optimizing the role of regulatory institutions	0.37647
2. Diversifying in accordance with the business	0.36648
3. Involving santri in BWM management	0.25705
<i>Model</i>	
1. Synergy and collaboration between institutions	0.25344
2. Regulatory changes towards BMW	0.15677
3. Comprehensive socialization and education	0.17762
4. Utilization of the role of pesantren leaders	0.10782
5. Optimizing the utilization of cash waqf	0.30473

Economic Issues

Capital sources garnered the highest priority in the economic aspect, with 43.5% of respondents emphasizing the importance of strengthening capital sources to facilitate increased financing for micro and ultra-micro businesses. Late repayment of financing emerged as the second most critical issue at 31.2%, highlighting the need for a more effective repayment mechanism to promote on-time payments from customers. Monitoring/Mentoring fees, with 25.3% priority, indicate the need for efficient and affordable arrangements regarding such fees. Addressing these economic issues can empower the Micro Waqf Bank Innovation Model to optimally utilize cash waqf and strengthen micro waqf banks.



Social Issues

Synergy between institutions emerged as the most crucial social factor, with 48.5% priority. This emphasizes the significance of fostering effective collaboration between the Micro Waqf Bank and other institutions for successful micro and ultra-micro enterprise empowerment. Public awareness of the Micro Waqf Bank followed at 28.2% priority, highlighting its importance in optimizing cash waqf utilization and fostering economic empowerment. Socialization ranked as the third priority with 23.3%, indicating the need for effective initiatives to broaden public knowledge about the role of BWM. By enhancing synergy, awareness, and socialization, the Micro Waqf Bank Innovation Model can be optimized to utilize cash waqf effectively as a viable solution for community empowerment.

Institutional Issues

Four factors within institutional issues were identified with varying levels of importance. HR professionalism received the highest priority at 43.3%, signifying the crucial role of a well-trained and competent team in managing BWM. Regulatory incompatibility with BWM and the limited number of BWMs both received 22.2% priority. The mismatch of regulations highlights the need for adjustments to better support the development of Micro Waqf Banks. The limited presence of BWMs underscores the need for efforts to expand their reach and benefit a wider range of micro and ultra-micro enterprises. Lastly, digitization, with 12.3% priority, indicates the need for improvements in utilizing digital technology to enhance efficiency and service accessibility. By prioritizing the development of professional human resources, adjusting regulations, expanding the presence of BWMs, and increasing their digitalization, the BWM Innovation Model can optimize cash waqf utilization for greater effectiveness.

Legal and Governance Issues

Three factors within legal and governance issues demand attention with varying degrees of importance. Regulations that support BWM emerged as the most critical factor with 45.9% priority, emphasizing the necessity of a supportive regulatory framework for effective functioning of Micro Waqf Banks. Capital financing to MSMEs (Micro, Small and Medium Enterprises) followed at 32.5% priority, highlighting the significance of providing sufficient financing access to MSMEs through Micro Waqf Banks to strengthen the micro and



medium enterprise sector. Lastly, managerial skills received 21.6% priority, indicating the need for improved managerial capabilities within Micro Waqf Banks to ensure efficient operations and address evolving challenges. By implementing supportive regulations, providing adequate financing, and enhancing managerial skills, Micro Waqf Banks can achieve sustainable development and contribute significantly to real sector economic growth.

Discussions

The analysis of problems and solutions in cash waqf utilization necessitates a model for optimizing its potential. This model should address key factors identified through the analysis, with the most crucial being the optimization of cash waqf utilization (30.5%) as capital for resolving the aforementioned issues.

Furthermore, synergy and collaboration between institutions (25.3%) and regulatory changes for BMWs (15.7%) are significant factors requiring attention. Comprehensive public awareness and education regarding BMWs (17.8%) and utilizing the role of pesantren leaders (10.8%) are also important aspects for consideration.

By optimizing cash waqf, fostering institutional collaboration, implementing appropriate regulations, providing thorough public education, and leveraging the role of pesantren leaders, BMWs can enhance their effectiveness and contribute positively to empowering the micro and ultra-micro economic sectors.

Main Goal and Regulatory Framework

This study advocates for regulatory reform that is more adaptive, participatory, and inclusive for Micro Waqf Banks. It suggests that Baitul Maal wat Tamwil as BWM, can operate as IMFIs in Aceh, based on existing regulations like Law No. 11/2006 and Qanun No. 11/2018.

For Micro Waqf Banks to operate effectively and optimize waqf funds, the paper emphasizes the need for regulatory reforms that are adaptive, participatory, and inclusive. To reinforce the role of BMWs as IMFIs, the paper suggests that regulations should define specific establishment requirements, transparent licensing procedures, detailed operational provisions that align with Islamic finance principles, and efficient supervision and control mechanisms.



It also highlights the importance of stakeholder involvement in regulatory reform to ensure effective implementation and wider positive impacts, particularly in empowering micro and ultra-micro enterprises in Aceh.

Role of Pesantren

Pesantren institutions hold immense potential as driving forces for establishing and developing BWMs through the Asset-Based Community Development (ABCD) approach.

Involving *santri* (Islamic school students) guardians as *waqifs* (donors) strengthens the role of pesantren in fostering BWMs as IMFIs. Pesantren can empower santri guardians by providing information and assistance regarding cash waqf and its benefits in micro and ultra-micro business development. Integrating waqf education into the pesantren curriculum can further educate students and guardians.

Additionally, pesantren can involve santri (students) in the cash waqf program through student waqf savings programs and provide opportunities for students interested in Islamic finance and banking by offering training and mentorship in contemporary fiqh (Islamic jurisprudence) related to waqf. Utilizing technology through digital platforms or mobile applications can enhance student inclusion and participation in the Micro Waqf Bank.

Furthermore, pesantren can organize Islamic financial training and education for santri, equipping them with the necessary knowledge to contribute to the development of BWMs and Sharia-based financial management. By adopting this approach, pesantren can become the primary driving force in establishing and developing BWMs as IMFIs by engaging both santri guardians and santri as waqifs.

Funding Innovation

Micro Waqf Banks require innovative funding concepts. While primarily relying on cash waqf from individuals and institutions to finance micro and ultra-micro enterprises, they can also explore additional funding sources, such as:

- Corporate Social Responsibility (CSR) funds
- Loans from other financial institutions



- Profit-sharing funds from Bank Aceh Syariah
- Government grants
- Crowdfunding cash waqf models, as suggested by research (Al-Daihani et al., 2023; Wahab et al., 2022)

These additional funds can support the expansion of the Micro Waqf Bank. Moreover, the bank can utilize its funds for investments, adhering to Sharia finance principles. By embracing innovation in funding concepts, Micro Waqf Banks can expand their reach and return to their core purpose.

The Micro Waqf Bank Innovation Model (WAKAFIT)

This study introduces an innovative approach by incorporating adaptive, participatory, and inclusive principles into the WAKAFIT model. The adaptive aspect of the model allows it to adjust to changing business environments and technological advancements.

The participatory approach actively involves pesantren institutions, micro-businesses, and the wider community in the planning and decision-making processes related to the micro waqf bank. Preliminary research findings demonstrate that waqf-based microfinance institutions can achieve both economic and social objectives simultaneously. This provides valuable insights for stakeholders involved in designing microfinance institutions (Yusgiantoro et al., 2023).

The case study from Aceh exemplifies the implementation of the WAKAFIT model within an existing micro waqf bank, focusing on optimizing the utilization of cash waqf. This enables micro waqf banks to offer services that adapt to the needs and demands of the Islamic finance industry, facilitated by regular regulatory updates. Additionally, the model promotes participatory decision-making by involving pesantren, micro-enterprises, and the community in micro waqf bank operations.

The Micro Waqf Bank Innovation Model emphasizes cash waqf as the primary form of Nadhir mauquf alaihi (waqf object). The model aims to optimize the use of cash waqf as capital to support the development of Micro Waqf Banks and empower micro and ultra-micro businesses (Yusgiantoro et al., 2023). This model positions cash waqf as a solution to address economic challenges related to capital access (Ascarya et al., 2022).



The model proposes that by acting as Nazir, BWMs can receive cash waqf and non-cash waqf through financial means, aligning with the special provisions granted to Aceh under the regional autonomy law. Therefore, the *Nadhira mauquf alaihi* in this model refers to cash waqf allocated specifically to support financing activities of micro and ultra-micro businesses, aiming for wider social and economic benefits.

Implications

The research on the Micro Waqf Bank Innovation Model in Optimizing the Utilization of Cash Waqf offers valuable insights and practical implications for various stakeholders. For Micro Waqf Banks (BWMs), this research presents an opportunity to become leading Islamic microfinance institutions (IMFIs) and play a central role in empowering micro and ultra-micro businesses. Actionable steps for BWMs include implementing the WAKAFIT model for improved efficiency, advocating for supportive regulatory reforms, collaborating with diverse stakeholders, enhancing managerial expertise, and tailoring contracts to better serve their target clientele.

Government entities can leverage this research to contribute to local economic development by fostering the growth of micro and ultra-micro enterprises. This can be achieved through implementing regulatory reforms to facilitate BWM establishment and operations, partnering with BWMs and other stakeholders on economic empowerment programs, and collaborating with pesantren to raise awareness about cash waqf and BWM benefits.

Pesantren have the potential to become central drivers in establishing and developing BWMs, thereby contributing significantly to community empowerment. Engaging guardians of students, integrating cash waqf programs into curricula, participating in fundraising initiatives, and increasing community literacy regarding cash waqf and BWM benefits are actionable steps for pesantren to embrace. The community stands to benefit from the financial services and economic empowerment opportunities provided by BWMs. Participating in cash waqf programs to contribute to BWM capital and utilizing BWM services to support and grow micro and ultra-micro businesses are ways for communities to actively engage and reap the benefits of this model.

Finally, academics and practitioners are presented with the opportunity to further research, develop, and implement innovative models for BWM development while assessing their impact. Conducting research on the



WAKAFIT model's effectiveness and scalability, providing training programs for BWM managers and stakeholders, and advocating for policy changes and sharing best practices are crucial steps for these groups to take in advancing BWM development.

By addressing the challenges of low literacy about cash waqf and BWMs, implementing effective risk mitigation and management strategies, and fostering collaboration and synergy among all stakeholders, the WAKAFIT model holds significant promise for transforming Micro Waqf Banks into effective IMFIs and contributing to the sustainable development of micro and ultra-micro enterprises in Aceh.

CONCLUSIONS

This research successfully developed and presented the WAKAFIT model, an innovative approach for Micro Waqf Banks (BWMs) in Aceh to optimize cash waqf utilization. The model emphasizes addressing external challenges, enhancing internal infrastructure, and innovating funding strategies. Key priorities identified through the Analytical Network Process (ANP) include capital sources, inter-institutional synergy, and regulatory support. The WAKAFIT model advocates for a multi-pronged approach involving regulatory reforms, active pesantren involvement, innovative financing options, modified financial contracts, and enhanced managerial professionalism. These combined initiatives aim to transform BWMs into effective Islamic Microfinance Institutions (IMFIs), fostering local economic growth and empowering micro and ultra-micro enterprises.

This research presents the benefits of the Micro Waqf Bank Innovation Model for various stakeholders. Micro Waqf Banks (MWBs) should adopt the WAKAFIT model, collaborate with stakeholders, and enhance their management for efficient operations. Governments can support this by facilitating regulatory reforms and partnering with MWBs on empowerment programs. Pesantren can contribute by integrating cash waqf programs into their curricula and increasing community literacy. The community can benefit from these services by contributing to BWM capital and utilizing their services for business growth. Academics and practitioners can further develop these models through research, training, policy advocacy, and sharing best practices.

Despite its significance, this study has some limitations. The specificity of the case study potentially restricts the generalizability of the findings. Moreover,



the emphasis on theoretical frameworks underscores the necessity for additional empirical investigations to evaluate the efficacy of the WAKAFIT model. Future studies should aim to validate the model across various settings, conduct long-term research to fully assess its impact, and explore the specific challenges and opportunities associated with its recommendations. Additionally, investigating how technological innovations could support the implementation of the WAKAFIT model might uncover new possibilities.

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