

INTEGRATION OF PHILANTHROPY AND MICRO WAQF BANKS TO STRENGTHEN ISLAMIC SOCIAL FINANCE: CASE IN INDONESIA

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Abstract: *Islamic social finance is thriving in Indonesia, with the country being recognized for its tremendous support of philanthropic institutions and micro waqf banks that effectively manage and utilize monies for the community. This study seeks to examine the incorporation of philanthropic organizations and micro waqf banks to enhance Islamic social finance. The study employs a qualitative methodology with a grounded theory approach, and the analysis is conducted using design thinking. The research findings indicate that philanthropic institutions and micro waqf banks aim to empower communities within the regulatory framework of the Indonesian government, the National Amil Zakat Agency, Financial Authority Services, and community contributions as Islamic social financial institutions. The research implications are strengthening Islamic social finance through increasing philanthropic behaviour and the positive role of micro waqf banks.*

Keywords: *Indonesia, Integration, Micro Waqf Bank, Philanthropy, Strengthening*

INTRODUCTION

The vast majority of Muslims in Indonesia, comprising 87.7% of the overall population, have significant potential to contribute to the welfare of people both within the country and internationally. The Muslim population in Indonesia is estimated to be 270,200,000 persons (BPS, 2021). It has the potential for both productive and consumptive uses, both of which contribute to the market and substantial economic growth.

Indonesian society, with a predominantly moderate Muslim population, emphasizes tolerance and multiculturalism, fostering a culture of generosity and philanthropy. Transparency and accountability should be established through engagement with schools, communities, and religious institutions, focusing on moral principles and volunteerism (Suwarno, 2019).

According to the Charities Aid Foundation (2021), Indonesia was designated the most philanthropic nation globally in 2020. According to Nisa and Purbasari (2021), the World Giving Index 2021 reveals that the predominant trend among millennials and individuals in Indonesia is to contribute their resources primarily to established philanthropic organisations.

Philanthropy encompasses a wide range of activities to achieve a harmonious balance between material giving and receiving, aiming to promote societal transformation (Latief, 2016).

Furthermore, it has been observed that there has been a rise in the participation of middle-class individuals in religious activities, which afterwards contributes to the development of social capital and facilitates coordination among them. This involvement also extends to philanthropic endeavours (Arpanudin et al., 2021). The utilisation of philanthropy in Indonesia remains incomplete, particularly in public interest development and the reinforcement of Islamic social finance. In contrast, Tamim (2016) highlights the deficiencies present within philanthropic institutions in Indonesia, namely, accountability issues and insufficient collaboration with other relevant parties.

According to Ariani (2015), this circumstance ultimately affects how the community's educational requirements are met. In Indonesia, there are a total of 107 philanthropic institutions that have been officially registered and are now functioning. These institutions can be categorised into different types based on their funding sources and organisational structure. Specifically, there are 18 family philanthropies, 17 corporate philanthropies, 30 religious philanthropies, 37 independent philanthropies, and four media philanthropies. (Filantropi.or.id, 2020).

In Indonesia, waqf is a part of philanthropy with similarities in acceptance and distribution aimed at the public interest, including economically weak ones (Fauzi & Gunawan, 2022). This connection uses philanthropy and waqf for social, economic and religious empowerment within the framework of the Islamic social finance system. On the other hand, Diniyya (2019) found that the problems faced by waqf-based Islamic social finance institutions may still face several problems that must be addressed related to credit risk, moral hazard, and economic feasibility. For this reason, Thaker (2018) offers an alternative model that can increase micro-enterprise access to financial services, which has been proposed using waqf.

The integration of Islamic social finance aims to encompass philanthropy, endowments, and community empowerment, aiming to foster a prosperous and equitable economy for the entire Indonesian population. Since 2017, the Financial Services Authority (OJK) has implemented regulations about sharia microfinance institutions, hereafter referred to as LKMS–micro waqf banks and MWB. These regulations are designed to enhance the availability of funds, capital, and financing options for low-income individuals lacking access to formal banking or institutional services (BWM, 2019).

With the explanation and thoughts above, strengthening Islamic social finance, including philanthropy and micro waqf banks is more crucial in Indonesia's development. The study aims to analyse the integration of philanthropic institutions and micro waqf banks to strengthen Islamic social finance.

LITERATURE REVIEW

Philanthropy

According to Tamim (2016), philanthropy is crucial in fostering cultural and religious understanding and respect through implementing beneficial deeds. According to Astuti (2015), religious doctrines encompass teachings that bear analogous significance to charity.

According to Manaf (1996), religion can be defined as disseminating teachings about adhering to God's rules, instructions, and commands through his messengers. This definition is based on the understanding that all religions possess certain ideals and exhibit philosophical

and theological pride, enabling their continued existence by seeking a rational foundation for faith (Erawati, 2018).

The contemporary philanthropic movement is founded upon the practice of community-based financing for social services, which is often rooted in religious teachings. This approach aims to enhance public knowledge and engagement in social initiatives (Arfandi, 2016). Numerous local and international donor agencies have regarded philanthropy as a significant means of providing educational and financial aid, emphasising the need for individuals to be empowered (Nasrullah, 2015). Thus, it is the awareness to overcome difficulties and improve society's general welfare in various fields of life. It is a significant part of the piety of a Muslim, actions that will invite God's blessings, mercy and help, actions that will save lives widely.

Micro Waqf Bank

Micro waqf banks are Islamic financial entities facilitating access to finance for micro-small firms facing challenges in obtaining credit from traditional banks (Arinta et al., 2020). The funding system operates on mutual help without interest, typically employing a qardh contract deemed lawful by the fatwa of the national Sharia council of the Indonesian Ulema Council, ensuring both Sharia compliance and legal validity.

In the context of micro waqf banks, several benefits can be observed. These include the provision of mentoring and training initiatives, the absence of interest charges, the availability of unsecured capital, the non-deposit-taking nature of these banks, a minimum profit sharing rate of 3% annually, the promotion of financial literacy and inclusion, the incorporation of the concept of joint responsibility, the potential to alleviate poverty and inequality, and the avoidance of exploitative lending practises.

As a synergy step, micro waqf banks are focused, among others, on Islamic boarding schools by carrying out microfinance business models on the consideration of having a diversity of customs and cultures, religions and loyalties so that institutionally micro waqf banks have the goal of becoming a more independent and efficient institution in finance and providing contribution has for assistance, empowerment and micro and small business services to people experiencing poverty (Darmawan et al., 2021).

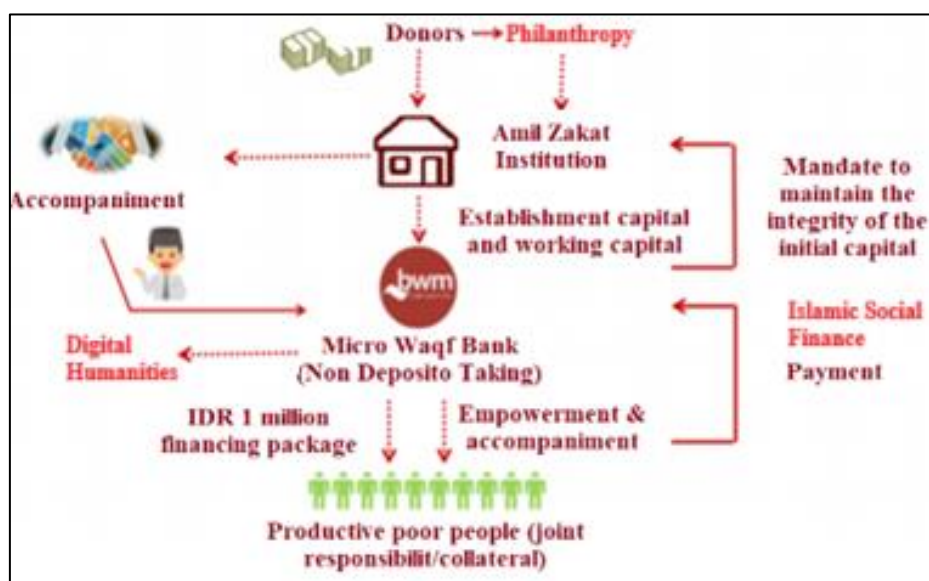


Figure 1. Integration of Philanthropy and Micro Waqf Bank

The picture above becomes a business model for micro waqf banks by explaining their respective functions, namely:

- a. Donors are all Indonesian people who have excess funds and have empathy for community empowerment at the same time as overcoming their poverty.
- b. Philanthropy opens opportunities for all parties to contribute as donors and muzakki
- c. In the process of categorising a productive society, it can be delineated as follows:
 - i. Individuals who have successfully attained fulfilment of their essential needs in their personal and familial spheres.
 - ii. Individuals who possess productive enterprises, demonstrate a willingness to engage in business activities and exhibit enthusiasm towards implementing business initiatives.
 - iii. Individuals considered the intended beneficiaries of the empowerment programme, specifically those impoverished or unable to access formal financial services.
- d. Non-deposit-taking refers to financial institutions that do not manage funds obtained from the general public through savings, deposits, or similar means. Instead, they primarily focus on supporting the economically disadvantaged through productive financing, empowerment, and assistance. This support is derived from profit-sharing Sharia deposits, financing, and other income generated through Sharia social funds.
- e. Islamic social financial institutions provide financing and empowerment to the community
- f. Micro waqf banks have methods to strengthen the Islamic social finance system that is run

Thus, integrating philanthropy and micro waqf banking is an alternative to realising the process of distributing wealth through productive cash waqf by providing broader access to benefits not only from economic and social aspects but also spirituality or religiosity in the long term.

Islamic Social Finance

Islamic social finance utilizes *zakat*, *infaq*, *sadaqah*, and *waqf* as methods of wealth distribution in the Islamic economic system to provide money in a structured manner (Ibrahim et al., 2021). The four instruments each have their laws, and that law, *zakat*, is obligatory for every Muslim. While the remaining three are methods for donating to other Muslims.

Zakat is one of the pillars of Islam, and the obligation to pay *zakat* is equivalent to the commandment to pray, but in essence, *zakat* is a component of people's lives (Hamzah, 2020). First, *zakat* is related to a body known as *zakat fitrah*, and second, *zakat* is related to a property known as *zakat maal*. The origin of the word alms is the word (*sadaqah*), which means the truth. In the form of an inherent offering, alms signify the vindication or proof of a servant's faith in Allah and His Messenger (Jaelani, 2018).

In this context, alms refer to providing unpaid support to individuals in need. Alms and *infaq* are synonymous terms that refer to giving something in return for interest. Alms can encompass both tangible and intangible forms; Any moral excellence can be considered a kind of giving. *Infaq* focuses solely on material possessions, unlike almsgiving (Anggraini et al., 2013).

Waqf comes from the Arabic *waqafa* which means to withhold or prevent, namely by withholding property rights that were originally intended to prevent the property from being

inherited, sold, granted, mortgaged, rented, lent and so on (Juwaini, 2022). While how to use it by the wishes of the waqf giver without compensation.

Method

This research method uses Grounded Theory, a qualitative analysis to gain a deep understanding based on a holistic view of information that cannot be measured, analysed and explained through a quantitative approach. For this reason, Creswell and Clark (2011) said the grounded theory is a methodological framework characterised by its systematic design approach and utilisation of qualitative techniques. It aims to generate theory by comprehensively examining and analysing processes, activities, or interactions about crucial subjects. This approach enables researchers to develop a deeper conceptual understanding of the phenomena under investigation.

The research location is the micro waqf Bank An-Nawawi Tanara Serang Regency, Banten Province, Indonesia. Data collection through interviews comes from informants, including supervisors and managers of micro waqf banks. Data analysis uses data triangulation including data collection, data reduction, presentation and conclusion.

Results and Discussion

Because this research uses aspects of community social empowerment, it needs a design thinking approach related to empowerment as a planned change so that empowerment goes through the awareness, capacity building and utilisation stages (Wrihatnolo & Dwidjowijoto, 2017). The performance data of the An-Nawawi Micro Waqf Bank are as follows:

Table 1. An-Nawawi Tanara Micro Waqf Bank Performance in 2023*

No	Performance	Amount
1	Cumulative Funding	Rp. 1,8 Billion
2	Outstanding Funding	Rp. 255,2 Million
3	Cumulative Customers	1200 people
4	Outstanding Customers	232 people
5	Kumpi/Group	89
6	Outcomes Product	3

(Source: BWM, 2023) *September 2023

It can be seen from Table 1 shows that since its inception in 2018-2021, the number of fostered products carried out by the An-Nawawi micro waqf bank with superior products, namely birthday cakes and kropcook. However, they have not utilised local resources or the characteristics of Serang Regency to carry out more product innovation variations to provide a more substantial market potential and brand image.

In building integration between philanthropy and micro waqf banks, in the opinion of the supervisor as follows:

“...The generosity that has been built is outstanding, where this micro waqf bank is a contribution and the role of donors in zakat, infaq and sadaqah institutions. They are the main capital for micro waqf banks to carry out business financing

and empowerment functions, integrated as Islamic social, financial institutions based on baitul maal wattamwil (BMT)..."

(Hasan Asyari, 2023)

Then, in the view of the manager as follows:

"...In practice, micro waqf banks are automatically included as philanthropic agents who receive donations from various parties in government-recognized institutions. In addition, micro waqf banks, as part of Islamic social and financial institutions, aim to provide capital and empower the community, especially the productive poor (mustahiq). The management of micro waqf banks currently uses a system provided by the financial services authority with a system that is still limited..."

(Ika Safitri, 2023)

In the economic and business managerial empowerment provided to the community, micro waqf banks focus on strengthening capital and business volume, business and marketing assistance and strengthening financial inclusion obtained from Islamic social and financial institutions. Thus, the An-Nawawi Micro Waqf Bank plays a good role in economic empowerment and business managerial programs by increasing capital and business volume, business assistance, marketing and financial inclusion. However, marketing has not played an optimal role.

The results of waqf funds in micro waqf banks have significantly reduced the community's poverty (Syamsuri et al., 2020). Considering that the potential for waqf in Indonesia is vast, this can be seen from the majority of the Muslim population. If the government or stakeholders maximise this, Indonesia can inevitably prosper with waqf funds collected and distribute fairly and evenly. This social investment activity in the form of cash waqf will create a foundation for implementing permanent social capital cultivation. It can be used to help implement credit programs that will strengthen the creation of a moral and social basis for community welfare.

Then, the existence of waqf institutions within the framework of Islamic social finance provides functional facilities to fill social intermediation gaps (Shaikh et al., 2017). Suppose the design is always adjusted to the behaviour and desires of producers and consumers. In that case, it will always be relevant to what they want, such as supervisors and managers of micro waqf banks. Based on the design thinking method, the author tries to explain a model flow framework to be used as material for stakeholder consideration in developing philanthropy and micro waqf banks to strengthen the Islamic social finance framework.

Empathy	Exploration	Elaboration	Expose	Execution	Expansion
The weak role of philanthropy and micro waqf banks strengthens Islamic social finance	Increasing the role of philanthropy	Advertising/Information services on social media.	Philanthropic community	Philanthropic donation activities	There is a community platform and t philanthropic business.
	Increasing the role of micro waqf banks	Increase in donors and customers.	Conduct community-based outreach	Making educational activities for micro waqf banks	The existence of educational services for micro waqf banks
	Strengthening Islamic social finance institutions	Increased benefits for recipients of financing	Conduct customer satisfaction and transparency surveys	Evaluation of the benefits and transparency of Islamic social and financial institutions	There are broad and significant benefits and transparency

Table 2. Model Flow Framework

This is the best chance to improve people's living standards and narrow the existing economic and social divides. This micro waqf bank also offers training and assistance to ensure its clients receive full benefits. In addition, the utilisation of micro waqf banks on a long-term basis is anticipated to promote sustainable Islamic social finance through charitable resources.

Fundamentally, philanthropy is very much aligned with the objectives of Islamic social finance, which prioritises the public interest, so an integrated study is needed so that in the future, there will be no losses that will have a negative impact, especially on the issue of the development of the Islamic economy in the world. For this reason, Fauzi and Haq (2023) argue that anticipating failure or loss of Islamic social finance requires a principled and operational approach; with this, the world community is committed to maintaining and running its system properly and sustainably.

This is supported by Ginanjar and Kassim (2020) said that Islamic microfinance institutions assist in reducing poverty by offering financial services to those in the informal economy who are facing poverty. These institutions are typically supported by Islamic social finance including zakat, infaq, sadakah, and waqf. Micro waqf banks play a crucial role in boosting the economy of communities near Islamic boarding schools to enhance their welfare.

Using a design thinking approach is essential for the micro waqf bank because of the complexity of the involvement required. This method assures that the problems highlighted during field interviews are in harmony with the solutions produced through its workflow, improving the future micro waqf bank's effectiveness.

CONCLUSION

Philanthropic institutions and micro waqf banks operate within a framework of community empowerment overseen by the Indonesian government, specifically the National Amil Zakat Agency, Financial Authority Services, and community donations. Studying design thinking in six social developments through ethical design reveals the importance of respecting human rights and trust, following regulations, being transparent, and valuing integrity and professionalism. Philanthropic institutions and micro waqf banks aim to empower communities within the regulatory framework of the Indonesian government, the National Amil Zakat Agency, Financial Authority Services, and community contributions as Islamic social financial institutions. The research implications show strengthening Islamic social finance through increasing philanthropic behaviour and the positive role of micro waqf banks.

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