



## Application of The Concept of Philanthropy With Productive Waqf Practices For MSMEs In Indonesia

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### ARTICLE INFO

### ABSTRACT

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The Covid 19 era has passed, but poverty and adversity are still evident in various countries, especially Indonesia, which is a country with a very large number of MSMEs spread throughout the country. During the Covid-19 pandemic, we experienced extraordinary shocks so that many MSMEs closed and did not return to their activities. Many factors influence it, namely; limited capital, low level of education, lack of business knowledge, increasingly tight business competition, limited supporting technology owned by MSME actors in Indonesia. Strengthening MSMEs based on productive waqf is one possible solution to help MSMEs recover and grow again. The aim of this research is to analyze the potential of productive waqf to revive MSMEs in Indonesia. Empirical research-based research presented descriptively supported by valid data and information obtained from interviews and field observations. Data collection techniques are from data sources from the BAZNAS institution, Lazis, journals and articles resulting from competent research, which have been reviewed and analyzed as a basis for the theories used. The results of this research show that MSMEs really need a productive waqf-based fund supply to revive MSME businesses as well as guidance and assistance in financial management, marketing, and production quality of MSMEs so that they become more advanced and developed.

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### Introduction

Indonesia is a country with a very large number of MSMEs and they spread throughout the country. MSMEs throughout Indonesia amount to 62.9 million units which include trade, agriculture, livestock, forestry, fisheries, mining, processing, building, communication, hotels, restaurants, and services. During the Covid-19 Pandemic, there was a tremendous shock resulting in MSMEs closing and did not resume their activities (Riduwan et al., 2022). There are several factors of influence, namely; limited capital, lack of business knowledge, intense competition, lack of marketing networks, and limited supporting information technology owned by MSME actors in Indonesia.

The direct impacts felt by MSME actors include: Sales turnover has decreased drastically while operational costs are relatively fixed, resulting in losses and ending up running out of capital. MSMEs also have difficulty in meeting the needs of raw materials, so that the production process of goods is hampered, difficulties in promoting merchandise, hampered distribution of goods to various regions, showrooms malfunction due to large-scale social restrictions during the Covid 19 pandemic, and the community as consumers also do not carry out purchasing activities, making sales turnover to decrease. With the various problems that arise, a fundamental solution is needed to overcome the problems of MSMEs.

Based on the data from the Ministry of Cooperatives, there are 1,785 cooperatives and as many as 163,713 Micro, Small, and Medium Enterprises (MSMEs) affected by the Covid 19 pandemic (Antara, May 2020). At least 39.9 percent of MSMEs reduced their stock of merchandise during the pandemic, which automatically reduced the amount of revenue received from sales. While operating costs are relatively fixed, this has an impact on cutting down MSME employees in companies by around 16.1 percent, which causes the number of unemployed people to increase, and of course adds new problems, namely unemployment.

Despite the emergence of a new phenomenon in society that is able to grab business opportunities by using information and communication technology, especially in online merchandise sales, conducting business activities online, online marketing and online sales, this technology and communication-based trade has finally increased sales to US\$130 billion. Product sales that experienced a drastic increase include health products that increased 90% and products supporting people's hobbies to 70%, including bicycle sales for cycling enthusiasts. Also, food products have increased by 350% with online sales and herbal food products increased by 200% (Tempo, April 27, 2020).

The majority of Indonesia's population is Muslim and the majority of MSME business actors are also Muslims. This, of course, is our thought as well as an opportunity to utilize the potential of this large Muslim population to overcome the problems that have arisen due to the Covid 19 pandemic, so that the potential of existing Muslims can truly realize welfare for the society, even though formally, the welfare of the people is the country's responsibility. The potential of Muslims that can be expected is Ziswah (Zakat, Infak, Sadaqah, Waqf, and Grants), as part of philanthropy transactions which is certainly very potential to play a role in improving the welfare of society, especially the potential of productive Waqf which is a special instrument because of various advantages in implementing this productive waqf concept.

With Ziswah's potential, productive Waqf-based MSME empowerment is one possible solution to help MSMEs rise and rebuild their businesses in the post-Covid-19 pandemic. Because productive waqf is a flexible and an interesting instrument to be developed in society, this is related

to the public's understanding of the concept of alms whose rewards continue to flow as long as the waqf products still provide benefits to the people in need, including MSME actors who currently need supplements to be able to rise and be empowered to rebuild MSME businesses.

## Method

Based on the background of the problems described above, the problem formulations in this research are:

1. What is the impact of the Covid 19 pandemic on MSMEs?
2. What is the potential of productive waqf in Indonesia?
3. What kind of productive waqf distribution model can be done to revive MSMEs?

The purpose of this research is to analyze the effect of the Covid 19 pandemic on MSMEs, analyze the potential of productive waqf and its distribution model to MSMEs in Indonesia. It is hoped that the effect of the Covid 19 pandemic on MSMEs can be clearly and validly identified and analyze the potential of productive waqf, which would allow efforts to empower MSMEs using productive waqf that can be collected through Waqf Board institutions, Baznas, and other Nazhir institutions.

The benefit of this research is to provide a broad overview on the influence of the Covid 19 pandemic and the impact on MSME business actors, and to be able to provide a fundamental solution on how to overcome the problems of MSMEs which would eventually allow them to rise again by utilizing the potential of productive waqf to re-empower MSMEs in Indonesia.

This research is based on empirical research presented in a qualitative descriptive manner supported by valid data and information obtained from interviews and field observations, as well as literature reviews and research articles, both from journals and online news to support the analysis.

The data collection method is from data sources of BWI, BWA, and BAZNAS institutions using secondary data sources from research results, references, and credible online news directly related to this research. Data is also obtained from competent journals and research articles, which have been reviewed and analyzed to support this research. Data analysis method is from secondary data, both qualitative and quantitative, obtained from research results, and existing data is carried out in an in-depth analysis to obtain conclusions.

## Result and Discussion

The discussion in this research includes 3 stages, namely; analyzing the impact of the Covid 19 pandemic on MSMEs, analyzing the potential of cash waqf and its benefits for the society, followed by a cash waqf distribution mechanism that can be done to achieve the stated objectives, and the purpose of this research discussion.

### **1. Impact of Covid 19 Pandemic on MSMEs (Micro, Small, and Medium Enterprises)**

The Covid 19 pandemic came in early 2019 and the implementation of Large-Scale Social Restrictions (PSBB) by the government, based on observations and interviews with MSME actors, showed that business activities, sales activities, production activities, and social activities as consumers experienced obstacles and limitations, resulting in a slowdown in the economy nationally and internationally. This is due to the Economic Value Chain that cannot be separated between one region and another and one country and another, especially in the export-import sector for raw materials and other finished products. The Economic Value Chain in question is that the needs of each MSME are inseparable from other businesses that are interconnected and in need of each other. For example, the need for raw materials and the need for finished goods ready to be sold. As a real picture, in an industrial area in Karawang, there is a sweater factory, export-quality dolls, and raw materials are sent from the UK. Due to the PSBB implementation, raw materials cannot be sent, thus the company cannot produce goods. As a result, the company had to lay off some employees and reduce productivity, resulting in a decrease in sales turnover.

Another example is an eel chips producer in Godean Market. Because distributors and consumers cannot freely go out and shop for eel chips, the impact is that sales of eel chips have decreased drastically. Another impact is a reduction in spending on raw eel materials, and eel producers automatically have less income from eel sales. What makes it more complicated is that the eels that are cultivated are getting bigger in size. Therefore, they cannot be used for eel chips because of their size, making eel farmers to sell large eels to the surrounding community who want to consume eels.

Limited social activities and drastically reduced physical interactions have resulted in a decrease in sales volume and a decline in production, while operational costs remain relatively fixed, resulting in losses. The next effect is that entrepreneurs will reduce operational costs by laying off employees because they cannot afford to pay employee salaries. Even more so, electricity, telephones, and other operational costs cannot be paid. In addition to the depleted reserve funds, sales are also almost 0 Rupiah, thus increasing the amount of losses and causing the capital to be eroded and depleted, while the family needs of each individual MSME actor must still be fulfilled.

Although there are MSME actors who are creative and innovative by selling products online, through WhatsApp, Instagram, Facebook, and other social media, the number of MSMEs that experience losses is greater, resulting in many MSME actors to close their services and have no sales activities or are temporarily closed.

### **2. The Potential of Cash Waqf in Indonesia**

Productive waqf has successfully driven the economy of the society. Especially after the success of A. Mannan in Bangladesh, the interest of the Muslim community to implement cash waqf

has increased. In fact, the positive laws of several countries, including Indonesia, have accommodated cash waqf in their legislation. The establishment of Law No. 41/2004 on waqf is a milestone in the implementation of cash waqf in Indonesia.

The Indonesian people's lack of understanding of the cash waqf concept and their fixation on the traditional meaning of waqf, which is limited to land, is a challenge for cash waqf activists. However, seeing the benefits given in cash waqf, people will eventually be enlightened to support the implementation of cash waqf. Furthermore, they will be more convinced when their cash waqf can be managed professionally, such as the phenomenon of cash waqf managed by Tabung Wakaf Indonesia.

The realization of cash waqf in Indonesia is still far from its potential. According to data from the Indonesian Waqf Board (BWI), cash waqf collected in the 2011-2018 period was only IDR 255 billion out of a potential of IDR 180 trillion. This is because public awareness and understanding of cash waqf is still low. Consequently, the need for fundamental and structured education to increase the potential of cash waqf in Indonesia is high.

As of December 20th, 2020, the total cash waqf collected and placed in (sharia) banks was only IDR 328 billion, while project-based waqf reached IDR 577 billion. Meanwhile, the potential of waqf assets per year reaches IDR 2,000 trillion, while the potential in the form of cash waqf can reach IDR 188 trillion. In the meantime, based on the data of the Indonesian Waqf Board up until January 20th, 2021, the accumulation of cash waqf reached IDR 819.36 billion, consisting of waqf through money of IDR 580.53 billion and cash waqf of IDR 238.83 billion. The number of cash waqf Nazhirs in Indonesia reached 264 institutions, while the number of Islamic Financial Institutions-PWU reached 23 Sharia Banks.

**3. Mechanism of Cash Waqf Distribution**

Cash waqf received by the Nazhir is used for productive activities, such as business, empowering MSMEs, and adding value to land waqf assets, so that the land becomes more productive and yielding, thus benefiting the welfare of the society. In the case of cash waqf, it is included in the category of temporary waqf or short-term waqf, because it is feared that the benefits of cash waqf will be lost if it is placed in permanent waqf. The mechanism for placing cash waqf is as follows:



**Figure 1.** Scheme of Fixed Asset Waqf

The mechanism of placing waqf fixed assets in the form of permanent waqf is expected to provide long-term benefits for MSMEs that obtain fixed assets such as land, vehicles, machinery, and other forms of assets, which are used for MSME operations.

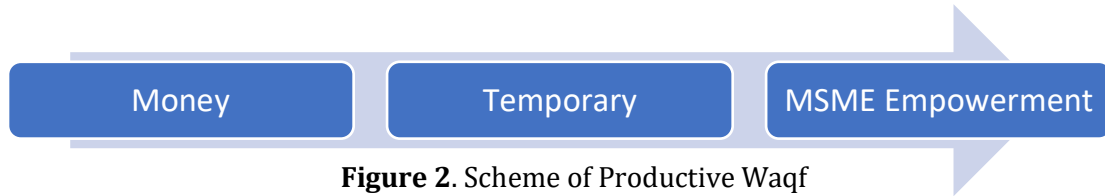


Figure 2. Scheme of Productive Waqf

The mechanism of placing cash waqf for production in the form of temporary waqf in the short term is expected to provide benefits for MSMEs to increase their productivity and empowerment, making them able to return to business, increase their sales turnover, and grow. Because productive waqf is temporary, when MSMEs have succeeded in getting back up and empowered again, productive waqf is gradually returned to the Nazhir, so that it can then be reallocated to other MSMEs in need of the productive waqf funds.

The concept of productive cash waqf distribution process can be seen in the following scheme:

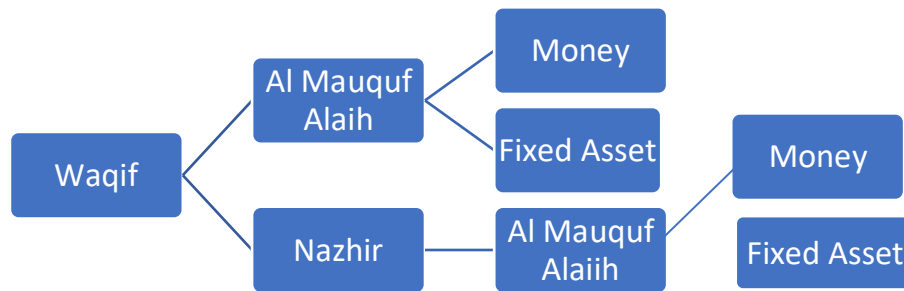


Figure 3. Scheme of Waqf Distribution to MSMEs (Al Mauquf Alaih)

In this scheme, waqf donors channel their waqf to Nazhir (Zakat Management Institution) or directly to MSMEs (Al Mauquf Alaih), either in the form of cash or fixed assets according to the needs of MSMEs. In this case, the Nazhir conducts a survey to ensure the needs of MSMEs. After the waqf is handed over, the Nazhir conducts monitoring and assistance to MSMEs to ensure that Al Mauquf Alaih can use the waqf properly and in accordance to its designation, so that the purpose of waqf reaches the intention for the welfare of the MSMEs.

The process of educating and providing understanding to MSME actors is that cash waqf is a kind of supplement to be able to help MSMEs to be able to rise again and build their business to be better and develop overtime.

## Conclusion

The MSME empowerment program based on productive waqf management is an alternative that can be taken to encourage MSMEs to rise again from the downturn after the Covid-19 pandemic and to develop into successful and advanced MSMEs, so as to achieve the goal of productive waqf, namely the welfare of MSME actors. Productive waqf-based MSME empowerment programs can maximize the productivity of MSMEs with funding support schemes that can be used to support more flexible production infrastructure, conduct management training, information technology-based marketing to increase sales turnover, and other productivity. The process of regular monitoring and evaluation of MSMEs as *Al Mauquf Alaih* will provide the spirit and efficiency of the productive waqf program, in addition to reaching the target of MSMEs as well. The most important thing is the accuracy in the use of productive waqf received by MSME actors, hence really benefits MSME actors.

Recommendation or suggestion that can be conveyed from this research is the need of the government's participation in encouraging the increase in productive waqf by providing facilities for Nazhir to be able to empower MSME actors directly and also monitoring, in order to achieve the goals and objectives of the intention of empowering MSME actors.

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