OPEN ACCESS
Sharia Oikonomia Law Journal
Vol. 4 No. 4. August 2026, pp. 307-329

Check for updates

DOI. 10.70177/solj.v4i4.4348

Research Article

THE ROLE OF SHARIA FINANCIAL INSTITUTIONS IN SUPPORTING MSME EMPOWERMENT THROUGH WAQF FINANCING SCHEMES

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Article Info

Received: February 5, 2026
Revised: May 9, 2026
Accepted: July 12, 2026
Online Version: August 24, 2026

Abstract

Micro, small, and medium enterprises often face limited access to affordable capital, managerial assistance, and sustainable market opportunities, creating a need for inclusive financing models grounded in Islamic social finance. This study aimed to examine the role of Sharia financial institutions in empowering MSMEs through productive waqf financing schemes and to assess the mediating effects of financing effectiveness and business-development support. An explanatory sequential mixed-methods design combined survey data from 360 MSMEs and 72 institutional respondents with structural equation modeling, document analysis, interviews, observations, and comparative case studies. Results showed that institutional support significantly influenced MSME empowerment directly and indirectly through financing effectiveness and sustained business assistance. Mentoring, monitoring, market facilitation, digital support, and Sharia governance produced stronger effects than financing amount alone. Beneficiary enterprises experienced improvements in revenue, productive assets, employment, financial recordkeeping, digital sales, market reach, and business continuity. Strong governance enhanced transparency, repayment discipline, beneficiary trust, and preservation of waqf assets. The study concludes that productive waqf generates sustainable MSME empowerment when Sharia financial institutions integrate affordable financing with professional mentoring, accountable governance, risk management, digital transformation, and market access within a coordinated institutional ecosystem that preserves endowed capital while expanding long-term socioeconomic benefits for vulnerable communities.

Keywords: Islamic Social Finance, MSME Empowerment, Productive Waqf, Sharia Financial Institutions, Waqf Financing

Journal Homepage	https://research.adra.ac.id/index.php/solj ISSN: (P: 2988-5191) - (E: 2988-5205)
How to cite:	Ikhyanuddin, Dhaheri, S. A., & Mansoori, K. A. (2026). The Role of Sharia Financial Institutions in Supporting Msme Empowerment Through Waqf Financing Schemes. *Sharia Oikonomia Law Journal*,*4*(4), 307–329. https://doi.org/10.70177/solj.v4i4.4348
Published by:	Yayasan Adra Karima Hubbi

INTRODUCTION

Micro, small, and medium enterprises constitute an essential component of economic development because they create employment, generate household income, stimulate local production, and support economic participation among communities with limited access to formal employment. Their contribution is especially important in developing economies where entrepreneurial activities often function as the primary source of livelihood (Murali & Govindan, 2025; Prasojo et al., 2025). Despite their strategic role, many MSMEs remain vulnerable to limited capital, weak managerial capacity, narrow market access, technological constraints, and unstable cash flows. This paragraph should introduce MSME empowerment as a multidimensional development agenda that requires financial support, business assistance, institutional protection, and sustainable access to productive resources (Al-shami et al., 2024; Timur et al., 2025).

Conventional financing systems do not always respond adequately to the characteristics and needs of MSMEs. Formal financial institutions commonly require collateral, stable income records, credit histories, detailed financial statements, and repayment capacities that many microentrepreneurs cannot demonstrate. Interest-bearing loans may also increase financial pressure when business income is uncertain or seasonal (Dutta & Kannan Poyil, 2024; Haruna et al., 2025). Sharia financial institutions offer an alternative framework based on justice, risk sharing, asset-based transactions, social responsibility, and the prohibition of exploitative financial practices. This paragraph should explain that Islamic finance has the potential to connect commercial sustainability with social inclusion through instruments designed for productive economic empowerment (Abdurrahman, 2025; Mujiatun et al., 2025).

Waqf represents an Islamic social-finance instrument with significant potential to support long-term socioeconomic development. Productive waqf allows endowed assets or funds to be managed in ways that preserve their principal value while generating benefits for eligible beneficiaries (Brogi & Lagasio, 2024; Zhang & Li, 2025). Cash waqf, waqf-linked investment, productive property, equipment provision, and revolving financing may be directed toward MSME development when managed professionally and in accordance with Sharia principles. This paragraph should establish waqf financing as more than charitable assistance because it can create productive assets, affordable capital, business infrastructure, and sustainable income for economically vulnerable entrepreneurs (Carè et al., 2025; Ryandono et al., 2025).

The financing gap experienced by MSMEs remains a central obstacle to business growth and resilience. Many entrepreneurs depend on personal savings, informal lenders, family support, or short-term commercial credit because formal financing is inaccessible or unsuitable (Sisay et al., 2025). Such dependence may restrict investment in equipment, inventory, digitalization, product development, certification, and market expansion. This paragraph should identify the specific problem that conventional and commercial Sharia financing products may remain difficult to access for microentrepreneurs who lack collateral, formal documentation, stable revenue, or sufficient financial literacy (Aripin & Zuhriyah, 2025; Harianto & Listyani, 2025).

Waqf financing has not yet been fully integrated into the operational systems of many Sharia financial institutions. Waqf managers, Islamic banks, Sharia cooperatives, microfinance institutions, and charitable organizations often operate through separate institutional structures, regulatory frameworks, and reporting mechanisms (Narayan et al., 2025; Wulandari et al., 2025). Limited coordination can lead to fragmented programs, weak beneficiary selection, duplicated assistance, unclear accountability, and insufficient business monitoring. This paragraph should formulate the institutional problem concerning how Sharia financial institutions can mobilize, manage, distribute, and supervise waqf-based financing without compromising the permanence of waqf assets or the sustainability of beneficiary enterprises (Elouaourti & Ezzahid, 2024; Sari et al., 2024).

The effectiveness of waqf financing cannot be assessed solely by the amount of funds distributed. MSME empowerment requires measurable improvement in business capacity, productivity, income, employment, market access, financial discipline, and long-term independence (Kholidah et al., 2024; Widiastuti et al., 2024). Financing without mentoring may create temporary liquidity but fail to address weaknesses in bookkeeping, marketing, production management, digital competence, and risk control. This paragraph should present the central research problem as the absence of an integrated model that combines waqf capital, Sharia financial intermediation, business development services, supervision, and outcome-based evaluation (Laila et al., 2024; Sofyan et al., 2026).

The primary objective of the study is to analyze the role of Sharia financial institutions in supporting MSME empowerment through waqf financing schemes. The analysis should examine how Islamic banks, Sharia microfinance institutions, cooperatives, waqf managers, and other relevant organizations participate in fund mobilization, financing distribution, beneficiary selection, monitoring, and reporting (Lv et al., 2024). This paragraph should state clearly that the study seeks to determine whether these institutions function merely as financial intermediaries or act as broader empowerment agents capable of integrating social finance with productive economic development (Adom, 2026; Sudirman et al., 2025).

The second objective is to evaluate the design and implementation of waqf financing schemes for MSMEs. Relevant aspects should include the source and legal structure of waqf funds, financing contracts, repayment arrangements, risk management, preservation of the waqf principal, eligibility criteria, business mentoring, and performance evaluation (Ameridyani et al., 2025; Hartanto et al., 2026). The research should examine possible contractual arrangements such as qard ḥasan, muḍārabah, mushārakah, murābaḥah, ijārah, or hybrid models. This paragraph should clarify that the study aims to identify which financing structures are most compatible with the objectives of productive waqf and the financial realities of MSMEs (Nguyen et al., 2026; Nur Azizah et al., 2025).

The third objective is to assess the influence of waqf financing on the economic and institutional development of beneficiary enterprises. Indicators may include business revenue, productive assets, employment creation, operational stability, digital adoption, market expansion, financial recordkeeping, and the ability to transition from dependency toward self-reliance. Institutional factors such as governance quality, Sharia supervision, mentoring intensity, and stakeholder collaboration should also be evaluated. This paragraph should explain that the research seeks to identify the mechanisms through which waqf financing produces sustainable empowerment rather than short-term financial relief (Afrianty et al., 2026; Manapa Sampetoding et al., 2026).

Existing studies on MSME financing frequently focus on commercial Islamic instruments provided by banks and microfinance institutions. These studies commonly analyze access to murābaḥah, muḍārabah, mushārakah, or microcredit facilities, while productive waqf receives less systematic attention as a source of enterprise financing (Elbayoumy et al., 2026; Polisetty et al., 2026). Research on waqf often emphasizes religious legitimacy, fundraising potential, or social welfare distribution without examining its operational integration into MSME financing. This paragraph should identify the conceptual gap between the literature on Islamic commercial finance and the literature on Islamic social finance.

Previous research on productive waqf often measures success through fund collection, asset development, or the number of beneficiaries. Limited attention is given to the long-term transformation of MSME performance, managerial capacity, business resilience, and economic independence. Beneficiaries may receive capital without adequate training, market support, or technological assistance, making it difficult to determine whether waqf financing produces sustainable empowerment. This paragraph should highlight the evaluative gap created by studies that emphasize financial distribution but do not measure changes in enterprise capability and livelihood quality.

Institutional collaboration remains insufficiently examined within the existing literature. Waqf financing may involve donors, waqf managers, Islamic banks, microfinance institutions, government agencies, business mentors, universities, digital platforms, and community organizations. Research frequently evaluates one institution in isolation and does not explain how responsibilities, risks, information, and accountability are distributed among participating actors. This paragraph should identify the methodological and institutional gap arising from the absence of an ecosystem-based analysis of waqf financing for MSME empowerment.

The novelty of the proposed study lies in conceptualizing waqf financing as an integrated empowerment ecosystem rather than a standalone funding mechanism. The model should connect waqf mobilization, Sharia financial intermediation, beneficiary assessment, appropriate contract selection, business mentoring, market linkage, digital support, and performance monitoring. Such an approach can explain why similar amounts of financing may generate different outcomes across beneficiary enterprises. This paragraph should emphasize that the study moves beyond the distribution of funds by examining the institutional processes that convert waqf resources into sustainable productive capacity.

A multidimensional empowerment framework constitutes another original contribution of the research. The proposed framework should assess financial outcomes alongside managerial competence, technological adoption, market access, employment creation, ethical business practices, and institutional independence. Governance indicators should include transparency, accountability, Sharia compliance, professional asset management, risk mitigation, and preservation of the waqf principal. This paragraph should explain that the research integrates financial, institutional, social, and ethical dimensions to evaluate whether waqf financing achieves both economic productivity and the objectives of maqāṣid al-sharīʿah.

The study is justified by the need to develop inclusive financing models for MSMEs that are unable to meet conventional banking requirements yet possess viable productive potential. Sharia financial institutions are strategically positioned to connect Islamic social funds with professional financial management, business development, and measurable economic outcomes. Effective waqf financing can reduce dependence on high-cost debt, expand productive opportunities, strengthen local employment, and improve community welfare. This paragraph should conclude that the research offers theoretical value by integrating Islamic social and commercial finance, methodological value through ecosystem-based empowerment analysis, and practical value for waqf managers, financial institutions, regulators, policymakers, donors, and MSME development agencies.

RESEARCH METHOD

Research Design

This study employed an explanatory sequential mixed-methods design to examine the role of Sharia financial institutions in supporting micro, small, and medium enterprise empowerment through waqf financing schemes. The quantitative phase measured the relationships among institutional capacity, waqf-financing quality, Sharia governance, business mentoring, and MSME empowerment. The qualitative phase explored how financing schemes were implemented, why their outcomes differed across beneficiaries, and which institutional practices contributed to sustainable business development. This design enabled the study to combine measurable patterns with contextual explanations derived from institutional and entrepreneurial experiences (Mahajan et al., 2026; Maharana & Shaw, 2026).

The quantitative component used a cross-sectional explanatory survey involving beneficiary MSMEs and personnel from participating Sharia financial institutions. Institutional support was treated as the primary independent variable, while MSME empowerment served as the principal dependent variable. Waqf-financing effectiveness and business-development assistance were examined as mediating variables. Sharia governance quality, beneficiary financial literacy, business age, enterprise size, and market conditions were included as control or moderating variables.

The study conceptualized the role of Sharia financial institutions as a multidimensional construct. Its dimensions included waqf-fund mobilization, beneficiary selection, financing design, contractual clarity, monitoring, risk management, business mentoring, market facilitation, digital support, reporting, and institutional collaboration. This framework distinguished institutions that merely distributed capital from institutions that acted as comprehensive empowerment agents.

Waqf financing was defined as the productive use of endowed funds or assets whose principal value was preserved while their benefits were directed toward eligible MSME beneficiaries. The financing schemes included qard ḥasan, muḍārabah, mushārakah, murābaḥah, ijārah, equipment-based assistance, and selected hybrid arrangements. Each scheme was evaluated according to legal structure, repayment requirements, risk allocation, affordability, preservation of waqf assets, and consistency with maqāṣid al-sharīʿah.

MSME empowerment was measured as a multidimensional outcome covering financial performance, productive capacity, managerial competence, market access, technological adoption, employment creation, business resilience, and independence from repeated assistance. Empowerment was not limited to revenue growth because short-term financial improvement might not indicate sustainable enterprise development. Greater importance was assigned to the beneficiary's ability to strengthen operational systems, manage risks, maintain financial records, and expand economic opportunities.

The qualitative phase adopted a multiple-case-study approach. Selected Sharia financial institutions and beneficiary enterprises were examined as institutional cases representing high, moderate, and low levels of empowerment performance. Interviews, observations, financing documents, mentoring records, and business-performance reports were used to reconstruct the implementation of each scheme. Cross-case analysis identified recurring mechanisms, institutional weaknesses, and contextual factors affecting outcomes.

Research Target/Subject

The research population consisted of Sharia financial institutions involved in productive waqf management and MSMEs that had received financing or productive asset support from waqf-based programs. Relevant institutions included Islamic banks, Sharia microfinance institutions, Islamic cooperatives, waqf management organizations, zakat and waqf foundations, and other entities formally authorized to manage or distribute Islamic social funds. The MSME population included enterprises operating in trade, food production, agriculture, services, handicrafts, creative industries, and small-scale manufacturing.

Institutional eligibility required active involvement in a productive waqf program for at least two years. Each institution had to possess documented beneficiary-selection procedures, financing agreements, monitoring activities, and financial or program reports. Institutions that only collected waqf funds without implementing productive MSME programs were excluded. Programs designed exclusively for direct consumption or emergency relief were also excluded because they did not correspond with the study's empowerment orientation (Purwati et al., 2026; Pusparini et al., 2026).

MSME eligibility required receipt of waqf-based financing or productive asset support for at least six months before data collection. Eligible enterprises had to be operational, identifiable, and capable of providing basic information concerning financing use, revenue, assets, employment, business practices, and institutional support. Enterprises that had closed before using the financing or lacked sufficient transaction and program documentation were excluded from the quantitative analysis.

A multistage purposive sampling procedure was employed. Sharia financial institutions were first selected according to institutional type, financing model, program duration, geographical coverage, and accessibility of program records. Beneficiary enterprises were then selected proportionately from the participant lists supplied by each institution. Stratification was applied according to business sector, enterprise scale, financing scheme, program duration, and location to improve sample diversity.

The quantitative sample consisted of 360 beneficiary MSMEs drawn from 12 Sharia financial institutions. The sample included 110 micro trading businesses, 78 food-production enterprises, 52 agricultural enterprises, 46 service businesses, 39 handicraft or creative enterprises, and 35 small manufacturing businesses. This sample size was considered adequate for structural equation modeling, mediation analysis, subgroup comparison, and model testing.

The institutional respondent sample consisted of 72 individuals occupying roles related to waqf management, financing, Sharia supervision, risk management, business mentoring, and program monitoring. Respondents were required to possess direct knowledge of the selected financing program. Senior managers without operational involvement were included only when they could explain strategic decisions, governance arrangements, and institutional collaboration.

The qualitative sample consisted of 30 participants selected through maximum-variation sampling. The sample included 12 MSME owners, six waqf managers, four financing officers, three Sharia supervisory personnel, three business mentors, and two representatives of partner institutions. Participants represented successful, moderately developing, and underperforming programs to ensure that the analysis did not focus solely on positive cases.

Six detailed cases were selected for cross-case analysis. Two cases represented strong empowerment outcomes, two represented moderate outcomes, and two represented limited or unsuccessful outcomes. Case selection considered business growth, repayment discipline, mentoring participation, asset development, employment change, and the beneficiary's ability to continue operating without additional emergency assistance.

Research Procedure

The research began with a review of literature on productive waqf, Islamic social finance, MSME empowerment, Sharia financial institutions, institutional governance, and business-development assistance. Relevant principles of Islamic commercial law and maqāṣid al-sharīʿah were examined to define lawful financing, preservation of endowed assets, justice, transparency, and socioeconomic benefit. The review produced the conceptual framework and initial research indicators. Ethical approval and institutional permission were obtained before fieldwork. Each participating institution received a written explanation of the study's objectives, required documents, respondent categories, and confidentiality procedures. MSME owners and institutional personnel provided informed consent before completing surveys or interviews. Participation remained voluntary, and respondents could withdraw without affecting their financing or institutional relationship.

Institutional mapping was conducted to identify each organization's role within the productive waqf ecosystem. The mapping recorded relationships among waqf donors, nāẓir, Sharia financial institutions, business mentors, government agencies, universities, market partners, and MSME beneficiaries. This stage clarified whether institutions performed fund management, financing distribution, technical assistance, supervision, or multiple functions. Program documents were collected before the survey stage. Financing agreements, beneficiary-selection guidelines, monitoring forms, repayment records, Sharia review documents, mentoring reports, and financial statements were coded using the Productive Waqf Governance Checklist. Document versions and effective dates were recorded to ensure that the policies analyzed corresponded with the financing period experienced by beneficiaries.

The quantitative survey was administered directly and electronically according to respondent accessibility. Research assistants explained the survey procedure without influencing participant responses. MSME owners completed sections on financing, institutional support, mentoring, business performance, and empowerment. Institutional personnel completed sections concerning program management, governance, monitoring, and risk control (Siow et al., 2026; Syarif & Aysan, 2026). Business-performance data were collected from financial records, sales notes, inventory books, digital transaction histories, and institutional monitoring documents. Self-reported estimates were accepted when formal records were unavailable, but they were marked separately during analysis. Data from multiple sources were compared to reduce the risk of overstatement or recall error.

Data screening was conducted before statistical testing. Questionnaires with extensive missing values, inconsistent responses, duplicate entries, or implausible completion patterns were excluded. Missing data were examined according to their amount and distribution. Multiple imputation was used when the missingness was limited and suitable for statistical treatment. Descriptive statistics were calculated for respondent characteristics, financing schemes, institutional roles, governance quality, mentoring intensity, and empowerment outcomes. Frequencies, percentages, means, standard deviations, and distribution patterns were reported. Before-and-after comparisons were performed for business indicators when reliable baseline data were available.

Confirmatory factor analysis was used to evaluate the measurement model. Standardized factor loadings, composite reliability, average variance extracted, and discriminant validity were examined. Model fit was evaluated using the comparative fit index, Tucker–Lewis index, root mean square error of approximation, and standardized root mean square residual. Structural equation modeling was conducted to test the direct influence of institutional roles on MSME empowerment. Waqf-financing effectiveness and business-development support were examined as mediating variables. Sharia governance quality was tested as a moderator of the relationship between institutional support and empowerment. Business size, sector, financing amount, program duration, and owner experience were included as control variables.

Bootstrapping with 5,000 resamples was used to estimate direct, indirect, and total effects. Mediation was considered statistically supported when the confidence interval for the indirect effect did not include zero. Moderation analysis examined whether stronger Sharia governance increased the effectiveness of institutional and financing support.

Paired-sample analysis was used to compare business performance before and after participation in the waqf-financing program. Revenue, productive assets, employment, digital adoption, and financial recordkeeping were examined. Nonparametric alternatives were applied when the data did not satisfy normality assumptions. Comparative analysis examined differences among financing schemes. Beneficiaries receiving qard ḥasan, partnership financing, asset-based financing, or hybrid assistance were compared according to business growth, repayment discipline, resilience, and independence. Institutional type and mentoring intensity were also included in subgroup analysis.

Preliminary quantitative findings guided the selection of qualitative cases. Interviews were conducted with beneficiaries and institutional stakeholders representing contrasting program outcomes. Interview sessions lasted approximately 45 to 75 minutes and were audio-recorded with participant permission. Field notes were prepared immediately after each interview. Qualitative data were analyzed through thematic and cross-case analysis. Initial coding focused on access to financing, contract understanding, fund utilization, mentoring, governance, market barriers, repayment, institutional trust, and business transformation. Focused themes explained why some programs generated sustainable empowerment while others produced only short-term financial relief.

Negative-case analysis was conducted on enterprises that received financing but experienced limited improvement or business decline. These cases were examined to identify inappropriate financing design, weak mentoring, market shocks, misuse of funds, insufficient monitoring, or beneficiary-selection problems. Negative cases prevented the analysis from presenting waqf financing as automatically effective. Quantitative and qualitative findings were integrated during the interpretation stage. Statistical analysis identified the strength of relationships among institutional roles, financing effectiveness, mentoring, governance, and empowerment. Case-study evidence explained the organizational and entrepreneurial processes underlying those relationships. Convergent evidence strengthened the conclusions, while contradictory findings were reported as indications of contextual complexity.

Research credibility was supported through methodological triangulation, source comparison, expert validation, inter-institutional sampling, negative-case analysis, and maintenance of an audit trail. Survey responses were compared with documents, business records, interviews, and observations. Major inconsistencies were examined before final classification. Confidentiality was maintained throughout the research process. Names of beneficiaries, institutions, donors, financing officers, and business partners were replaced with identification codes. Sensitive financial documents were stored securely and accessed only by authorized researchers. Findings were reported in aggregate or anonymized case form to protect participants and participating institutions.

Instruments, and Data Collection Techniques

The Institutional Role Scale was used to measure the contribution of Sharia financial institutions to MSME empowerment. The instrument contained indicators covering fund mobilization, beneficiary assessment, contractual design, financing accessibility, monitoring, risk management, business mentoring, digital facilitation, market linkage, reporting, and stakeholder coordination. Responses were recorded on a five-point Likert scale ranging from strongly disagree to strongly agree (Anwar et al., 2026; Sharma & Sharma, 2026). The Waqf Financing Effectiveness Scale assessed the appropriateness and operational quality of the financing scheme. The instrument measured affordability, contractual clarity, suitability of financing with business needs, repayment flexibility, absence of exploitative charges, risk sharing, speed of disbursement, preservation of waqf principal, and continuity of program benefits. Separate items were included for asset-based, partnership-based, benevolent-loan, and hybrid financing arrangements.

The Sharia Governance Scale evaluated institutional compliance with Islamic legal and ethical principles. Its dimensions included Sharia supervisory involvement, contract review, lawful fund utilization, transparency, accountability, segregation of waqf assets, prevention of misuse, beneficiary fairness, and regular Sharia audit. The scale also examined whether institutions applied substantive justice rather than relying only on formal contractual approval. The Business Development Support Scale measured the intensity and quality of nonfinancial assistance. Indicators covered bookkeeping training, financial planning, production management, marketing, product certification, digital commerce, risk management, mentoring frequency, access to networks, and problem-solving support. The instrument distinguished one-time training from continuous assistance responsive to the beneficiary’s actual business condition.

The MSME Empowerment Index served as the principal outcome instrument. The index measured changes in revenue stability, productive assets, working capital, employment, market reach, digital adoption, managerial practices, financial records, business confidence, and operational independence. Scores were calculated from a combination of self-reported changes, available business records, and institutional monitoring data. The Productive Waqf Governance Checklist was used to examine program documents. The checklist recorded the source of waqf funds, legal status of the waqf assets, financing contract, beneficiary criteria, disbursement mechanism, repayment policy, risk mitigation, monitoring schedule, Sharia supervision, reporting procedures, and treatment of returns. Documentary findings were compared with survey and interview responses to identify inconsistencies between formal policy and operational practice.

A Business Performance Record Form captured secondary data from beneficiary enterprises. Recorded variables included monthly revenue, operational costs, business assets, number of workers, financing amount, repayment history, inventory turnover, digital-sales activity, and business continuity. Data were collected for the period before financing and at the most recent monitoring point whenever reliable records were available. A semi-structured interview guide was used during the qualitative phase. Questions examined the financing application process, perceived fairness, contract understanding, use of funds, mentoring experience, business changes, repayment challenges, and institutional responses to difficulties. Institutional respondents were asked about governance, risk, fund preservation, beneficiary monitoring, and collaboration with external stakeholders.

An observation guide was used to assess the operational condition of selected MSMEs. Observation focused on productive assets, inventory, business activity, financial records, employee involvement, digital tools, production practices, and evidence of financing utilization. Observational data were used to confirm or question claims obtained through surveys and interviews. Instrument content validity was evaluated by experts in Islamic economics, waqf management, MSME development, Sharia finance, and research methodology. Each item was assessed for relevance, clarity, theoretical alignment, and contextual suitability. Items that overlapped excessively or failed to represent productive waqf principles were revised or removed.

A pilot study was conducted with 45 MSME beneficiaries and nine institutional respondents who were not included in the final sample. Exploratory factor analysis was used to examine the initial structure of the scales. Cronbach’s alpha, McDonald’s omega, and composite reliability were calculated, with coefficients of 0.70 or higher treated as acceptable. Ambiguous expressions were revised based on participant feedback and statistical results.

RESULTS AND DISCUSSION

The final quantitative dataset consisted of 360 MSMEs supported by 12 Sharia financial institutions implementing productive waqf programs. All beneficiary questionnaires were considered valid after data screening, although 17 responses required limited missing-value imputation. The institutional sample included 72 respondents working as waqf managers, financing officers, Sharia supervisors, risk-management personnel, business mentors, and program-monitoring staff. The beneficiary enterprises comprised 110 trading businesses, 78 food-production enterprises, 52 agricultural enterprises, 46 service businesses, 39 handicraft and creative enterprises, and 35 small-scale manufacturing businesses.

Most participating enterprises were classified as microenterprises, representing 71.39% of the sample, while small enterprises accounted for 24.17% and medium enterprises represented 4.44%. The average business age was 4.72 years, and the average duration of participation in a waqf-financing program was 18.36 months. The mean amount of financing or productive asset support received by each enterprise was USD 2,840, with considerable variation across business sectors and financing models. Productive waqf support was delivered through qard ḥasan, murābaḥah, muḍārabah, mushārakah, ijārah, equipment assistance, and hybrid financing schemes.

Table 1. Characteristics of MSME Beneficiaries and Waqf Financing Schemes

Characteristic	Category	Frequency	Percentage
Business sector	Trade	110	30.56
	Food production	78	21.67
	Agriculture	52	14.44
	Services	46	12.78
	Handicrafts and creative industries	39	10.83
	Small-scale manufacturing	35	9.72

Characteristic	Category	Frequency	Percentage
Enterprise scale	Microenterprise	257	71.39
	Small enterprise	87	24.17
	Medium enterprise	16	4.44
Financing scheme	Qard ḥasan	102	28.33
	Murābaḥah	68	18.89
	Muḍārabah	49	13.61
	Mushārakah	37	10.28
	Ijārah or equipment leasing	31	8.61
	Productive equipment assistance	43	11.94
	Hybrid scheme	30	8.34
Program duration	6–12 months	96	26.67
	13–24 months	174	48.33
	More than 24 months	90	25.00

The distribution of financing schemes showed that qard ḥasan was the most frequently used instrument, particularly among microenterprises requiring working capital without additional financial pressure. Asset-based and hybrid schemes were more common among food-production, manufacturing, and handicraft enterprises because these businesses required equipment, machinery, storage facilities, or production tools. Partnership-based schemes were less frequently applied because they required stronger financial records, profit-calculation mechanisms, and continuous monitoring from participating institutions.

The descriptive pattern also indicated that access to waqf financing was concentrated among enterprises operating for more than two years. Institutions generally preferred beneficiaries with existing business activities because they were easier to assess and had demonstrated a minimum level of market viability. Newly established enterprises represented only 14.72% of the sample. This finding suggested that productive waqf programs were used primarily to strengthen existing businesses rather than finance untested entrepreneurial ideas.

The mean score for the institutional role of Sharia financial institutions was 4.02 on a five-point scale, indicating a generally strong contribution to program implementation. Contractual clarity obtained the highest mean score at 4.31, followed by financing accessibility at 4.22 and Sharia supervision at 4.18. Market linkage and digital-business assistance received the lowest scores at 3.42 and 3.38, respectively. Business mentoring achieved a mean score of 3.71, indicating that assistance was available but not equally intensive across institutions and locations.

The overall MSME Empowerment Index reached 74.86 out of 100. Financial performance recorded the highest dimension score at 78.42, followed by productive capacity at 76.91 and business confidence at 76.38. Digital adoption received the lowest score at 63.27, while market expansion and operational independence reached 68.81 and 69.46. These results showed that waqf financing produced stronger improvements in capital availability and production than in technological transformation, market diversification, or long-term independence from external assistance.

Table 2. Descriptive Statistics for Institutional and Empowerment Variables

Variable	Mean	Standard Deviation	Interpretation
Institutional role	4.02	0.57	High
Financing accessibility	4.22	0.61	Very high
Contractual clarity	4.31	0.54	Very high
Monitoring quality	3.88	0.68	High
Business mentoring	3.71	0.73	High
Market facilitation	3.42	0.81	Moderate-to-high

Variable	Mean	Standard Deviation	Interpretation
Digital support	3.38	0.84	Moderate-to-high
Sharia governance	4.18	0.52	High
Waqf-financing effectiveness	4.07	0.59	High
Overall MSME Empowerment Index	74.86	11.24	High
Financial performance	78.42	12.18	High
Productive capacity	76.91	11.73	High
Managerial competence	72.64	12.91	High
Market expansion	68.81	13.84	Moderate-to-high
Digital adoption	63.27	15.09	Moderate
Business independence	69.46	13.28	Moderate-to-high

Confirmatory factor analysis supported the adequacy of the measurement model. Standardized factor loadings ranged from 0.69 to 0.91, composite-reliability coefficients ranged from 0.84 to 0.95, and average variance extracted values exceeded 0.50 for all principal constructs. The model demonstrated acceptable goodness of fit, with a comparative fit index of 0.953, Tucker–Lewis index of 0.946, root mean square error of approximation of 0.047, and standardized root mean square residual of 0.041. Discriminant-validity testing confirmed that institutional role, financing effectiveness, mentoring quality, Sharia governance, and MSME empowerment represented empirically distinct constructs.

Structural equation modeling showed that the institutional role of Sharia financial institutions had a significant direct effect on MSME empowerment, with a standardized coefficient of (beta=0.34), (p<0.001). Institutional support also significantly influenced waqf-financing effectiveness, (\beta=0.62), and business-development assistance, (\beta=0.57). Waqf-financing effectiveness significantly predicted empowerment, (\beta=0.29), while business-development assistance produced a stronger effect of (\beta=0.38). The combined indirect effect of institutional role through financing effectiveness and business assistance reached 0.40, producing a total effect of 0.74 on MSME empowerment.

Table 3. Structural Relationships among Institutional Support, Financing, and Empowerment

Structural Relationship	Standardized Coefficient	95% Confidence Interval	(p)-value	Result
Institutional role → MSME empowerment	0.34	0.24–0.44	<0.001	Significant
Institutional role → financing effectiveness	0.62	0.53–0.70	<0.001	Significant
Institutional role → business-development support	0.57	0.48–0.65	<0.001	Significant
Financing effectiveness → MSME empowerment	0.29	0.19–0.39	<0.001	Significant
Business-development support → MSME empowerment	0.38	0.28–0.47	<0.001	Significant
Institutional role → empowerment through financing effectiveness	0.18	0.12–0.25	<0.001	Partial mediation
Institutional role → empowerment through	0.22	0.15–0.30	<0.001	Partial mediation

Structural Relationship	Standardized Coefficient	95% Confidence Interval	(p)-value	Result
business support				
Total effect of institutional role on empowerment	0.74	0.65–0.81	<0.001	Strong total effect

Sharia governance significantly moderated the relationship between institutional support and MSME empowerment. The interaction coefficient reached (\beta=0.16), (p=0.003), indicating that institutional support produced stronger empowerment outcomes in programs with transparent reporting, active Sharia supervision, clear asset segregation, and consistent beneficiary monitoring. The final structural model explained 64.00% of the variance in MSME empowerment, 38.00% of the variance in financing effectiveness, and 33.00% of the variance in business-development support.

Business age and financing duration produced small but significant positive effects on empowerment, while financing amount alone was not a significant predictor after institutional support and mentoring were included in the model. Enterprise sector also influenced outcomes, with food production and small-scale manufacturing recording stronger asset growth than service enterprises. Owner education and initial financial-literacy levels were positively related to managerial improvement but did not eliminate the influence of institutional assistance.

Correlation analysis showed a strong positive relationship between institutional role and overall MSME empowerment, (r=0.71), (p<0.001). Business-development support demonstrated the strongest relationship with managerial competence, (r=0.68), while financing effectiveness was strongly associated with productive capacity, (r=0.66). Sharia governance was positively related to beneficiary trust, repayment discipline, and program sustainability. The amount of financing showed only a weak relationship with empowerment, (r=0.24), suggesting that capital size was less important than the suitability and management of the financing.

Mentoring intensity was positively associated with financial recordkeeping, digital adoption, and market expansion. Beneficiaries receiving at least one structured mentoring session per month achieved an average empowerment score of 82.14, compared with 68.73 among enterprises receiving irregular or one-time training. Digital support showed a particularly strong relationship with online-sales growth, (r=0.63), while market linkage was associated with revenue stability, (r=0.58). These findings indicated that nonfinancial institutional services substantially influenced whether waqf capital produced sustainable business transformation.

Table 4. Relationships among Principal Research Variables

Variable Relationship	Correlation Coefficient	(p)-value	Interpretation
Institutional role and MSME empowerment	(r=0.71)	<0.001	Strong positive relationship
Financing effectiveness and productive capacity	(r=0.66)	<0.001	Strong positive relationship
Business mentoring and managerial competence	(r=0.68)	<0.001	Strong positive relationship
Sharia governance and beneficiary trust	(r=0.64)	<0.001	Strong positive relationship
Sharia governance and repayment discipline	(r=0.55)	<0.001	Moderate-to-strong relationship
Digital support and online-sales growth	(r=0.63)	<0.001	Strong positive relationship

Variable Relationship	Correlation Coefficient	(p)-value	Interpretation
Market linkage and revenue stability	(r=0.58)	<0.001	Moderate-to-strong relationship
Financing amount and empowerment	(r=0.24)	<0.001	Weak positive relationship
Monitoring quality and business continuity	(r=0.52)	<0.001	Moderate positive relationship

Paired-sample analysis showed significant improvements in most business-performance indicators after participation in productive waqf programs. Average monthly revenue increased from USD 1,460 before financing to USD 2,080 at the latest monitoring point, representing an increase of 42.47%. Average productive assets increased by 37.19%, while the mean number of workers rose from 3.18 to 4.06 employees. The proportion of enterprises maintaining regular financial records increased from 28.61% to 71.39%.

Digital-sales adoption increased from 24.17% before financing to 58.61% after program participation. The proportion of enterprises selling beyond their immediate local market increased from 31.94% to 52.78%. Business continuity also improved, with 86.94% of beneficiaries operating without interruption during the previous twelve months. Programs combining financing with structured mentoring generated larger gains than programs providing capital alone.

Table 5. MSME Performance Before and After Waqf Financing

Performance Indicator	Before Program	After Program	Change	(p)-value
Average monthly revenue	USD 1,460	USD 2,080	+42.47%	<0.001
Average productive assets	USD 4,120	USD 5,652	+37.19%	<0.001
Average number of workers	3.18	4.06	+27.67%	<0.001
Enterprises with regular financial records	28.61%	71.39%	+42.78 points	<0.001
Enterprises using digital sales	24.17%	58.61%	+34.44 points	<0.001
Enterprises reaching nonlocal markets	31.94%	52.78%	+20.84 points	<0.001
Enterprises with emergency savings	19.44%	46.39%	+26.95 points	<0.001
Enterprises operating without interruption	68.33%	86.94%	+18.61 points	<0.001

An illustrative high-performing case involved a home-based halal food enterprise supported through a hybrid waqf-financing scheme. The enterprise received productive equipment valued at USD 3,200, a qard ḥasan working-capital facility of USD 1,500, monthly bookkeeping assistance, halal-certification support, packaging development, and access to a digital marketplace. Before program participation, the business employed three workers, operated with basic household equipment, and generated an average monthly revenue of USD 1,780.

The enterprise achieved substantial growth after twenty-four months of institutional support. Monthly revenue increased to USD 4,650, productive employment expanded to eight workers, and digital sales contributed 43.00% of total income. Financial records became systematic, product certification was completed, and distribution extended to three neighboring regions. The beneficiary repaid the revolving working-capital facility on schedule, allowing the institution to finance another microenterprise from the returned funds.

Table 6. Performance of the Illustrative High-Empowerment Case

Indicator	Before Program	After 24 Months
Monthly revenue	USD 1,780	USD 4,650
Number of workers	3	8
Productive equipment value	USD 1,920	USD 6,480
Digital-sales contribution	4%	43%
Market coverage	One local area	Four regional markets
Financial recordkeeping	Informal notes	Standard monthly reports
Product certification	None	Halal and home-industry certification
Repayment performance	Not applicable	100% on schedule
Business continuity reserve	None	Equivalent to three months of operating costs
Empowerment Index	54.80	91.60

A contrasting low-performing case involved a small trading enterprise that received a qard ḥasan facility of USD 2,100 without continuous mentoring. The beneficiary used part of the financing for household expenses after experiencing a family emergency. Business revenue increased temporarily during the first four months but declined when inventory management and cash-flow separation remained weak. Institutional monitoring was conducted only twice during the eighteen-month program period.

The low-performing enterprise completed only 62.00% of the expected revolving payments and did not develop reliable financial records. Market reach, employment, and digital adoption remained unchanged. The case received an Empowerment Index score of 49.30, despite receiving a financing amount similar to that of several successful beneficiaries. This result demonstrated that access to capital alone did not ensure productive transformation when beneficiary selection, mentoring, monitoring, and household-risk management were inadequate.

The high-performing case showed that waqf financing became effective when capital, productive assets, mentoring, certification, digital access, and market linkage were delivered as an integrated package. Equipment increased production capacity, while working capital supported stable purchasing of raw materials. Bookkeeping assistance improved cost control, and digital-market support expanded customer access. The revolving nature of the financing also preserved the social benefit of the waqf fund by transferring repaid capital to another eligible enterprise.

The low-performing case showed that financing without intensive assistance remained vulnerable to consumption diversion, weak cash-flow management, and irregular repayment. The beneficiary’s business difficulties were not caused solely by personal indiscipline because the program lacked mechanisms for emergency support, early problem detection, and adaptive mentoring. Institutional weakness and household vulnerability interacted to reduce the productive impact of the financing. These findings confirmed that empowerment outcomes resulted from the quality of the financing ecosystem rather than the amount of capital distributed.

The strong institutional effect can be explained by the multiple functions performed by Sharia financial institutions. These institutions did not merely transfer waqf resources to beneficiaries. They assessed business feasibility, selected financing contracts, monitored fund utilization, facilitated training, coordinated market access, and protected the principal value of waqf assets. Programs were more successful when these functions were integrated and delivered consistently.

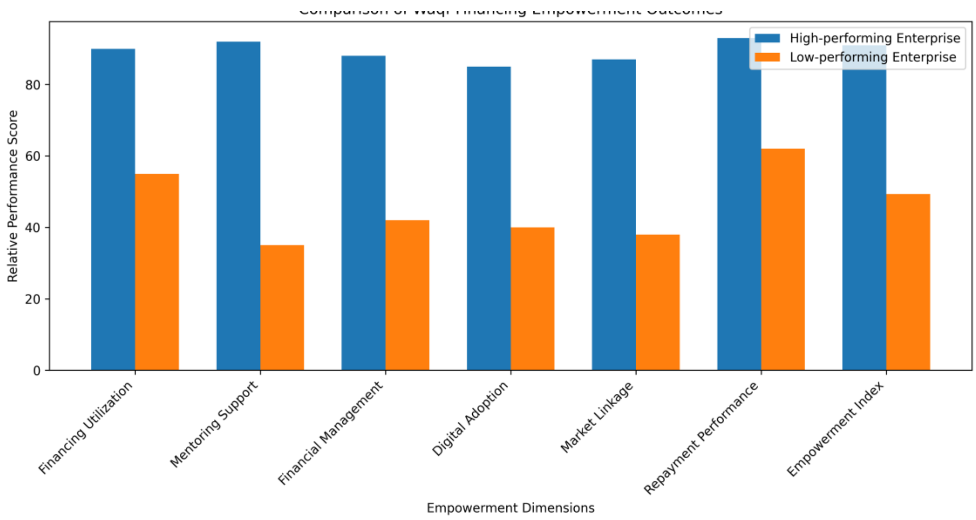

Figure 1. Comparison of Waqf Financing Empowerment Outcomes

The stronger effect of mentoring compared with financing amount reflected the managerial constraints experienced by many MSMEs. Additional capital could increase inventory or production, but weak bookkeeping, pricing, marketing, and risk management could prevent sustainable growth. Continuous business assistance helped beneficiaries convert financial resources into productive capacity, income stability, and institutional independence. Sharia governance strengthened these processes by improving transparency, trust, accountability, and discipline among institutions and beneficiaries.

The combined results indicate that Sharia financial institutions play a significant role in transforming waqf resources into productive support for MSME empowerment. Their contribution becomes most effective when financing is affordable, contractually clear, professionally supervised, and accompanied by sustained business-development services. Waqf financing should therefore be evaluated not only through the amount of funds distributed or the number of beneficiaries but through measurable improvements in revenue, assets, employment, managerial competence, digital adoption, market access, and business resilience.

The broader interpretation is that productive waqf functions best as an integrated empowerment ecosystem. Capital distribution alone produces limited and uneven outcomes, while coordinated financing, Sharia governance, mentoring, monitoring, digital support, and market facilitation create stronger and more sustainable effects (Alam et al., 2026; Kurniasari et al., 2026). The preservation of waqf principal and the empowerment of beneficiaries are not competing objectives when institutions apply appropriate contracts, maintain transparent governance, manage risk carefully, and recycle financial benefits for future MSME development.

The findings demonstrate that Sharia financial institutions play a substantial role in empowering MSMEs through productive waqf financing. Institutional involvement directly improved business performance and indirectly strengthened empowerment through financing effectiveness and business-development support. The total institutional effect was considerably stronger than its direct effect, indicating that empowerment emerged from the quality of program implementation rather than institutional presence alone. Financing accessibility, contractual clarity, Sharia supervision, monitoring, mentoring, and stakeholder coordination collectively shaped the capacity of beneficiary enterprises to use waqf resources productively.

Waqf financing generated measurable improvements in revenue, productive assets, employment, financial recordkeeping, digital-sales adoption, market reach, emergency savings, and business continuity. Financial performance and productive capacity showed the strongest improvements, while digital adoption, market expansion, and operational independence remained comparatively weaker. This pattern indicates that productive waqf programs were more effective in resolving immediate capital and equipment constraints than in addressing complex barriers related to technology, marketing, and long-term institutional autonomy.

Business-development support produced a stronger effect on MSME empowerment than the amount of financing received. Enterprises participating in regular mentoring achieved higher empowerment scores than enterprises receiving irregular or one-time assistance. Bookkeeping support, digital marketing, product certification, operational planning, and market linkage enabled beneficiaries to transform capital into sustainable productive outcomes. Financing size showed only a weak relationship with empowerment, confirming that additional capital did not automatically improve business performance without adequate managerial capacity.

The contrasting case studies reinforced the statistical findings. The high-performing enterprise received an integrated package consisting of productive equipment, interest-free working capital, mentoring, certification assistance, digital-market access, and continuous monitoring. The low-performing enterprise received capital without sufficient assistance and diverted part of the financing toward urgent household needs. These cases demonstrate that productive waqf becomes an empowerment instrument when financial support is embedded within a responsive institutional ecosystem capable of addressing business and household vulnerabilities.

The positive relationship between Sharia financial institutions and MSME empowerment is consistent with previous research emphasizing the contribution of Islamic finance to financial inclusion and productive development. Earlier studies commonly show that accessible Sharia financing can reduce dependence on informal lending, increase working capital, and support business continuity. The present findings extend this argument by demonstrating that productive waqf can provide affordable financing to enterprises that may remain excluded from commercial banking because of limited collateral, incomplete financial records, or unstable income (Murali & Govindan, 2025; Prasojo et al., 2025).

The observed importance of mentoring corresponds with studies concluding that microfinance programs generate stronger outcomes when capital is combined with business-development services. Financial assistance may temporarily increase inventory or production, but its effects weaken when entrepreneurs lack bookkeeping, marketing, pricing, and risk-management skills. The current findings strengthen this position by showing that mentoring partially mediates the institutional effect on empowerment. Productive waqf should therefore be viewed as a developmental intervention rather than a financial transfer.

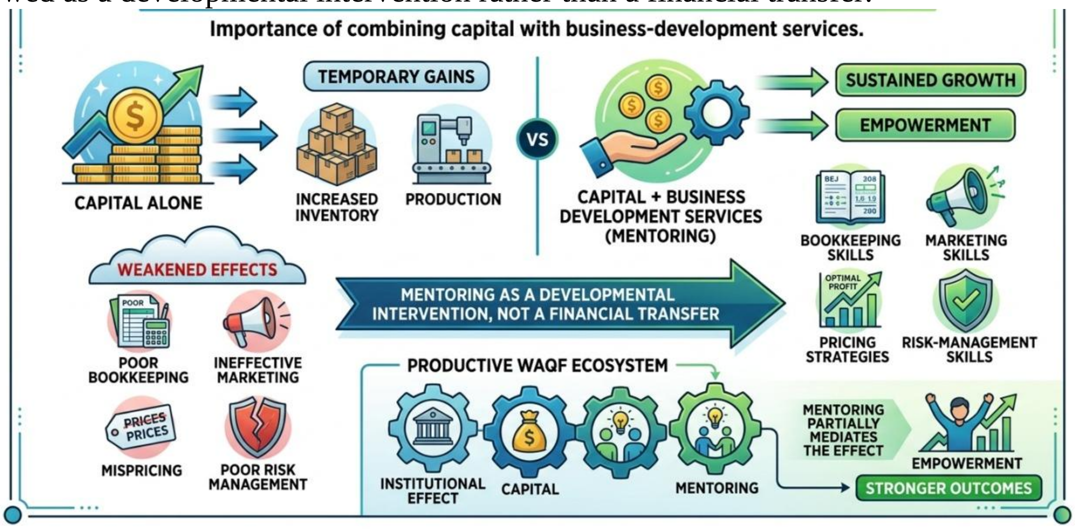

Figure 2. The Power of Mentoring in Microfinance

The weak relationship between financing amount and empowerment differs from assumptions that larger funding automatically produces greater business growth. Capital size was less influential after financing suitability, mentoring quality, and governance were included in the structural model. This finding suggests that productive waqf programs should not evaluate success primarily through the amount distributed. Appropriate contractual design, beneficiary readiness, institutional supervision, and the productive use of funds determine whether financing creates durable economic value.

The significant moderating role of Sharia governance supports research linking transparency, accountability, and Sharia supervision with institutional trust and program sustainability (Al-shami et al., 2024; Timur et al., 2025). The present study adds a practical dimension by showing that governance quality strengthened the relationship between institutional support and enterprise empowerment. Programs with clearer asset segregation, consistent monitoring, transparent reporting, and active Sharia review produced stronger outcomes. Formal Sharia approval alone was insufficient when operational controls and beneficiary support remained weak.

The findings signal that productive waqf is evolving from a conventional charitable instrument into a strategic mechanism for economic empowerment. Waqf resources can create recurring social benefits when their principal value is preserved and their productive use generates income, employment, and business resilience. This transformation broadens the function of Islamic social finance from short-term relief toward sustained economic participation. Beneficiaries become productive actors rather than permanent recipients of assistance.

The findings also signal that Sharia financial institutions occupy a strategic position between social objectives and professional financial management. Their role extends beyond distributing endowed funds because they possess institutional capacity for contract design, risk assessment, monitoring, financial administration, and business assistance. Their effectiveness depends on whether these capabilities are applied in an integrated manner. Institutions functioning only as disbursement channels produce weaker outcomes than institutions acting as empowerment facilitators.

The lower scores for digital adoption and market expansion signal that many productive waqf programs remain concentrated on financing inputs rather than market transformation. Equipment and working capital may increase production, but expanded output does not guarantee sustainable revenue when beneficiaries lack digital capabilities, product differentiation, certification, distribution networks, and access to broader markets. Productive waqf programs must consequently address the demand side of enterprise development as seriously as the supply of capital.

The contrasting cases signal that MSME performance is shaped by interactions between enterprise capability, household vulnerability, and institutional responsiveness. Financing diversion toward household needs cannot always be interpreted as simple beneficiary misconduct. Family emergencies, unstable income, and the absence of social protection can weaken the separation between business and household finances. Effective empowerment requires mechanisms capable of identifying such vulnerabilities before they undermine the productive use of waqf resources.

The primary implication for Sharia financial institutions is the need to adopt an empowerment-oriented operational model. Financing programs should combine appropriate capital, productive assets, business assessment, mentoring, market linkage, digital support, and performance monitoring. Institutional success should be measured through business transformation rather than disbursement volume. Revenue stability, asset growth, employment, resilience, financial discipline, and independence provide more meaningful indicators of productive impact.

The implication for waqf managers concerns the preservation and productive circulation of endowed resources. Revolving financing, equipment utilization, and profit-sharing arrangements require clear governance to protect the waqf principal while maximizing beneficiary impact. Asset segregation, transparent reporting, independent audit, and regular Sharia supervision are essential for maintaining public trust. Weak governance can expose waqf assets to misuse, loss, or inefficient allocation.

The implication for policymakers is the need to create regulatory coordination among waqf authorities, Islamic financial institutions, MSME agencies, government departments, and business-development organizations. Fragmented regulation may prevent institutions from integrating social finance with professional enterprise support. Clear standards are needed for financing contracts, risk management, reporting, beneficiary protection, and measurement of socioeconomic outcomes. Public incentives could also encourage financial institutions to participate in productive waqf programs without compromising prudential standards.

The implication for MSME development agencies is that productive waqf can complement commercial financing but should not remain isolated from broader enterprise-support systems. Beneficiaries require access to licensing, certification, technology, digital platforms, supply chains, and public procurement opportunities. Collaboration with universities, training institutions, marketplaces, and industry associations can improve the quality of assistance. Such cooperation enables waqf financing to support business upgrading rather than merely business survival.

The strong institutional effect occurred because Sharia financial institutions performed several interrelated functions. They selected beneficiaries, evaluated business feasibility, chose financing contracts, supervised fund utilization, monitored repayment, and provided technical assistance. Each function reduced a different source of risk. Their combined operation created an environment in which waqf funds could be converted into productive assets, improved management, and sustainable income.

The stronger impact of mentoring resulted from the managerial limitations faced by many micro and small enterprises. Beneficiaries often possessed technical production skills but lacked formal knowledge of bookkeeping, pricing, inventory control, digital marketing, and financial planning. Capital increased their capacity to operate but did not automatically correct these weaknesses. Continuous mentoring helped entrepreneurs use resources more efficiently and respond to operational problems before they became severe.

The weak effect of financing amount can be explained by variations in business readiness and absorptive capacity. A larger financing package may exceed the management capacity of an enterprise with weak records, limited markets, or unstable operations. A smaller package combined with suitable equipment, training, and market support may generate stronger growth. Financing effectiveness therefore depends on alignment between the amount, contract, business cycle, and beneficiary capability.

The moderating influence of Sharia governance can be explained through its effect on trust, discipline, and accountability. Clear contractual obligations reduce misunderstanding, while transparent monitoring encourages responsible fund utilization. Active Sharia supervision strengthens confidence that the program protects both the waqf asset and beneficiary rights. Governance mechanisms also help institutions identify misuse, repayment difficulties, or operational decline early enough to provide corrective support.

Future research should employ longitudinal designs to evaluate whether empowerment outcomes remain stable after beneficiaries complete their financing programs. Short-term revenue and asset growth may not indicate sustainable independence when businesses continue to depend on institutional assistance. Repeated measurement can examine enterprise survival, repayment recycling, employment retention, digital development, and graduation into commercial financing. Such research would clarify whether productive waqf creates lasting economic mobility.

Future studies should compare the effectiveness of different waqf-financing contracts across business sectors and enterprise stages. Qard ḥasan may be suitable for vulnerable microenterprises requiring flexible working capital, while mushārakah or muḍārabah may be more appropriate for growth-oriented enterprises with reliable financial records (Dutta & Kannan Poyil, 2024). Asset-based schemes may produce stronger outcomes in production-intensive sectors. Comparative evidence can support more precise matching between beneficiary needs and contractual structures.

Future methodological development should strengthen the measurement of empowerment through verified business records and objective indicators. Self-reported revenue, assets, and employment may be affected by recall error or social desirability. Digital transaction histories, bank records, tax documents, inventory data, and independent observations can improve measurement accuracy. Mixed-methods analysis should continue to examine why enterprises with similar financing packages produce different outcomes.

Future program development should integrate digitalization, market access, household-risk protection, and institutional collaboration into productive waqf models. Digital bookkeeping, online marketplaces, product certification, insurance or takaful protection, emergency assistance, and supply-chain partnerships can reduce vulnerabilities that financing alone cannot address. A sustainable waqf ecosystem should preserve endowed assets, empower beneficiaries, recycle financial benefits, and create measurable social value across successive generations of MSMEs.

CONCLUSION

The most important finding of this study is that Sharia financial institutions strengthen MSME empowerment most effectively when waqf financing is delivered as an integrated support system rather than as capital assistance alone. Institutional involvement improved business performance directly and indirectly through financing effectiveness, sustained mentoring, monitoring, market facilitation, and digital support. Business-development assistance exerted a stronger influence than the amount of financing received, indicating that productive waqf generates sustainable outcomes when beneficiaries are equipped to manage capital, strengthen operations, expand markets, and respond to business risks. Strong Sharia governance further enhanced these outcomes by increasing transparency, accountability, beneficiary trust, repayment discipline, and protection of the waqf principal.

The study provides both conceptual and methodological contributions to the literature on Islamic social finance and MSME development. Its conceptual contribution lies in framing productive waqf as an empowerment ecosystem that integrates fund mobilization, Sharia financial intermediation, appropriate contract selection, business mentoring, market linkage, digital transformation, institutional collaboration, and performance evaluation. Its methodological contribution is reflected in the explanatory sequential mixed-methods design combining structural equation modeling, business-performance comparison, institutional document analysis, interviews, observation, and contrasting case studies. This integrated approach enables researchers to assess not only financial distribution but also the mechanisms through which waqf resources create productive capacity, managerial competence, business resilience, and long-term independence.

The main limitations of this study include its cross-sectional design, restricted institutional and geographical coverage, reliance on partially self-reported business data, and unequal representation across financing schemes and enterprise sectors. Differences in program duration, institutional capacity, market conditions, and beneficiary readiness may also limit the generalizability of the findings. Future research should employ longitudinal and comparative designs using verified financial records, digital transaction data, and repeated measurements of business survival, employment, repayment, and market growth. Further studies should evaluate the relative effectiveness of qard ḥasan, muḍārabah, mushārakah, asset-based, and hybrid models while examining digitalization, household vulnerability, takaful protection, governance innovation, and beneficiary graduation into sustainable commercial financing.

DECLARATION OF AI AND AI ASSISTED TECHNOLOGIES IN THE WRITING PROCESS

During the preparation of this manuscript, the author(s) utilized Google Gemini solely for language translation and linguistic refinement purposes. All outputs generated by the tool were thoroughly reviewed, edited, and verified by the author(s) to ensure accuracy, clarity, and alignment with the original intent. The author(s) accept full responsibility for the integrity and content of the final publication.

AUTHOR CONTRIBUTIONS

Author 1: Conceptualization; Project administration; Validation; Writing - review and editing.

Author 2: Conceptualization; Data curation; In-vestigation.

Author 3: Data curation; Investigation.

DECLARATION OF COMPETING INTEREST

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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