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SUSTAINABLE WAQF AMIDST GLOBAL UNCERTAINTY:  
ALIGNING WITH EQUITABLE FUTURE

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## Waqf for Impact: Synergizing Islamic Philanthropy and ESG Principles for Sustainable Development

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**Abstract:** This article explores the potential of waqf as an Islamic financial instrument that aligns with the principles of Environmental, Social, and Governance (ESG) to support the achievement of the Sustainable Development Goals (SDGs). The study is motivated by the growing need for a financial system that prioritizes not only profitability but also ethical responsibility and environmental sustainability, as embodied in ESG frameworks. Employing a qualitative approach, this research uses literature review, policy analysis, and comparative case studies of productive waqf implementations in Indonesia, Malaysia, and the Middle East that have incorporated ESG principles. The findings reveal that the synergy between waqf and ESG offers significant opportunities for innovative financing models aimed at generating social and ecological impact, while maintaining transparent and integrity-based governance. Operationally, ESG-based productive waqf schemes have the potential to attract social investors and Islamic financial institutions to fund sustainable projects such as renewable energy, education, and healthcare. This article recommends the development of adaptive regulatory and governance frameworks for waqf that incorporate ESG principles, the strengthening of institutional capacity among waqf administrators, and the integration of social and environmental impact reporting systems into waqf portfolios. Collaboration among waqf authorities, Islamic financial regulators, and market actors is essential to transform waqf from a traditional philanthropic tool into a strategic catalyst for sustainable development in the era of green economy.

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### Abstract:

This article explores the potential of waqf as an Islamic financial instrument that aligns with the principles of Environmental, Social, and Governance (ESG) to support the achievement of the Sustainable Development Goals (SDGs). The study is motivated by the growing need for a financial system that prioritizes not only profitability but also ethical responsibility and environmental sustainability, as embodied in ESG frameworks. Employing a qualitative approach, this research uses literature review, policy analysis, and comparative case studies of productive waqf implementations in Indonesia, Malaysia, and the Middle East that have incorporated ESG principles. The findings reveal that the synergy between waqf and ESG offers significant opportunities for innovative financing models aimed at generating social and ecological impact, while maintaining transparent and integrity-based governance. Operationally, ESG-based productive waqf schemes have the potential to attract social investors and Islamic financial institutions to fund sustainable projects such as renewable energy, education, and healthcare. This article recommends the development of adaptive regulatory and governance frameworks for waqf that incorporate ESG principles, the strengthening of institutional capacity among waqf administrators, and the integration of social and environmental impact reporting systems into waqf portfolios. Collaboration among waqf authorities, Islamic financial regulators, and market actors is essential to transform waqf from a traditional philanthropic tool into a strategic catalyst for sustainable development in the era of green economy.

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## **Introduction**

The financing needs to achieve the Sustainable Development Goals (SDGs) have continued to increase significantly over the past decade. The Organisation for Economic Co-operation and Development (OECD, 2025) notes that from 2015 to 2022, developing and middle-income countries experienced a 36% rise in funding requirements, while available resources grew by only 22%. This condition has led to an annual financing gap surge of up to USD 4 trillion, representing a 60% increase compared to the previous period. These facts underscore that traditional financing mechanisms, such as public investment and foreign aid, are increasingly inadequate in addressing the complexity of global challenges.

One of the most affected sectors is climate adaptation financing. The Adaptation Gap Report published by the United Nations Environment Programme (UNEP, 2023) estimates that developing countries require between USD 215 and 387 billion annually for adaptation. However, this figure is 10 to 18 times greater than the level of public financing currently available. The funding shortfall has the potential to exacerbate climate vulnerability, particularly in poorer countries with weak adaptation infrastructure. The decline in international assistance further aggravates the financing crisis. According to the International Institute for Sustainable Development (IISD, 2025), an increasing number of donor countries are reducing their contributions due to fiscal constraints and shifts in domestic political priorities.

This phenomenon has given rise to the term donor fatigue, which reflects the exhaustion and declining commitment of developed countries in supporting global development. In this context, reforming the international financial architecture has become an urgent necessity to ensure the sustainability of funding flows for achieving the SDGs. Similar concerns were raised at the Fourth International Conference on Financing for Development (FfD4). Reuters (2025) reported that the forum highlighted the global financing gap of USD 4 trillion per year and called for measures such as enhancing the lending capacity of multilateral banks, establishing global taxation instruments, and implementing transparent governance. However, without a strong accountability system, new policies risk merely prolonging the dependency of developing countries on global financial institutions.

In response, various alternative mechanisms have emerged to bridge the financing gap, one of which is through the role of Development Finance Institutions (DFIs). Financial Times (2025a) illustrates this with the example of British International Investment (BII), which increased its investment in Africa to £1.09 billion in 2024, marking a 40% rise compared to the previous year. This scheme demonstrates the potential of DFIs to provide long-term financing that is more oriented toward sustainable development than traditional aid. In addition, blended finance has become an important instrument in combining development funds, philanthropy, and private investment. Although this mechanism has faced criticism regarding transparency, the OECD (2025) emphasizes that blended finance has already channeled more than USD 60 billion to 111 developing countries.

Another instrument that is increasingly developing is the market for green bonds and sustainable bonds. The United Nations Conference on Trade and Development (UNCTAD, 2025) reported that in 2024, the issuance of green, social, and sustainability bonds exceeded USD 1 trillion, while sustainability-themed fund assets reached USD 3.2 trillion. However, although green finance markets continue to grow, the stagnation of new capital inflows and rising investor caution indicate vulnerability to global turmoil. The key to bridging this gap lies

in governance and transparency. Reuters (2025) emphasized that the implementation of more transparent corporate governance, including sustainability reporting and strong accountability mechanisms, can enhance investor confidence while expanding sustainable capital flows. Instruments such as sustainability-linked bonds and Environmental, Social, and Governance (ESG)-based impact assessments are increasingly needed to ensure that investments are not only economically profitable but also socially and environmentally impactful.

In recent decades, the ESG framework has evolved into one of the most important instruments in the world of investment. Initially, ESG emerged from the tradition of socially responsible investment (SRI), which sought to avoid sectors considered morally problematic, such as tobacco, gambling, and weapons. As an ethical framework, ESG emphasizes that investments should not be evaluated solely on financial returns but also on their impact on the environment, social justice, and transparent governance. In line with this, institutions such as the Sustainability Accounting Standards Board (SASB) provide technical guidance to ensure that ESG factors can be measured systematically, ranging from business ethics to data privacy (SASB, 2024). The presence of these standards strengthens the position of ESG as an operationalizable ethical framework rather than merely a normative discourse.

Nevertheless, ESG is not free from criticism. The issue of greenwashing has become one of its major challenges. For instance, an investigation by The Guardian (2025) revealed that JP Morgan's so-called "sustainable" fund continued to invest in the mining company Glencore, which is known for its controversial environmental footprint. This case highlights how the ESG label is sometimes used as a marketing strategy without sufficient ethical substance. To address this challenge, several quantitative approaches have been developed, one of which is the concept of ESG-coherent risk measures. Torri, Giacometti, Dentcheva, Rachev, and Lindquist (2023) proposed the integration of ESG scores into traditional risk-return analysis, enabling investors to assess both sustainability and financial stability within a single analytical framework.

Waqf, as an Islamic philanthropic instrument that has long been used to finance education, healthcare, and public facilities, now demonstrates broader potential as a sustainable financial instrument with socio-ecological impact. The modern transformation of waqf, such as in the form of productive waqf, has opened opportunities for economic empowerment and inclusive development (Judijanto, Sarif, & Ariyanti, 2025). Productive waqf converts waqf assets into income-generating activities, such as property or social entrepreneurship, to support poverty alleviation, education, healthcare, and environmental sustainability.

In addition to its economic and social contributions, waqf also plays an important role in environmental preservation. The concept of green waqf, for instance, has been developed as an instrument to support climate change mitigation, clean energy transition, and ecosystem protection (UNDP, 2024). In Indonesia, initiatives such as waqf-based forests not only safeguard forest ecosystems but also manage water supply and climate balance, all in alignment with the Sustainable Development Goals (SDGs) (Lowy Institute, 2024). A holistic approach to waqf has been further reinforced through the integration of waqf practices within the framework of Islamic social finance. The UN (2023) report highlights the importance of Islamic social financing, including waqf, in addressing inequality and supporting the achievement of the SDGs, with funding potential reaching up to USD 1 trillion per year (RSIS International, 2025).

Research on the relevance of waqf in the context of contemporary Islamic finance has become highly urgent, as it directly relates to the global need for alternative financing mechanisms that are just, inclusive, and sustainable. Reports by the OECD (2025) and UNDP (2024) indicate that the financing gap for achieving the Sustainable Development Goals (SDGs) has reached trillions of dollars annually, while conventional instruments such as foreign aid and public investment are becoming increasingly limited. In this situation, waqf can serve as a relatively stable domestic resource, rooted in spiritual values, and capable of mobilizing community funds for socio-ecological purposes. The urgency of this research is also reinforced by the growing reality of the climate crisis. The concept of green waqf introduces a new paradigm in which waqf assets are not only focused on social development but also directed toward protecting ecosystems, financing renewable energy transitions, and safeguarding food and water security (UNDP, 2024; Lowy Institute, 2024).

In addition, from a social justice perspective, research on waqf is also urgent to address the marginalization of vulnerable groups. Productive waqf, when managed professionally, can serve as an instrument for the economic empowerment of poor communities, supporting access to education, healthcare, and basic infrastructure (Elmahgop et al., 2025). Another dimension of urgency arises from governance aspects. Many Muslim-majority countries, including Indonesia, continue to face serious challenges related to transparency, accountability, and the effectiveness of waqf management. Up-to-date research is needed to formulate adaptive governance models, integrate digital technologies such as blockchain into waqf asset recording, and promote public policies that strengthen the role of waqf as a pillar of Islamic social finance.

Sustainable development today faces serious challenges in the form of a widening financing gap, while the need to achieve the SDGs continues to grow. Conventional financial instruments have proven insufficient to address this complexity, thus requiring alternative financing mechanisms that are more inclusive and rooted in social values. In the Islamic tradition, waqf has long played a role in supporting education, healthcare, and community welfare, and has now evolved into productive waqf, which holds the potential to sustain sustainable development. On the other hand, ESG has emerged as a global standard emphasizing environmental sustainability, social responsibility, and good governance. The synergy between waqf and ESG principles has the potential to create a financing framework that is ethical, transparent, and long-term oriented. Based on this background, this study formulates a main research question: How can the synergy between waqf and ESG principles support the achievement of the SDGs?

## **Literature Review**

Waqf is experiencing a renaissance as an Islamic social finance instrument that not only supports education and healthcare services but is also increasingly positioned as a sustainable finance tool with measurable socio-ecological impact. The UNDP–Green Waqf Framework report illustrates how the architecture of “green waqf” can connect nazar institutions, governments, and the private sector to community-based climate financing, while at the same time reaffirming the relevance of waqf within the contemporary climate finance ecosystem (UNDP, 2022).

At the conceptual level, recent literature links *maqāṣid al-sharī'ah* with ESG as both an ethical and operational framework for investment. A systematic study in the Emerald journal (IMEFM) identifies points of convergence (and divergence) between *maqāṣid* and ESG—such as the protection of life/environment, social justice, and governance—while proposing a disclosure index to ensure that their compatibility can be audited across Islamic financial institutions (Zain et al., 2024). From a practical perspective, this positions ESG not merely as an ethical label but as a standardized tool for transparency, risk management, and impact accountability within the Islamic finance industry.

At the instrumental level, the Cash Waqf Linked Sukuk (CWLS) in Indonesia is often cited as a breakthrough that integrates cash waqf funds with state-issued Islamic securities to finance priority social programs. Official publications of the Ministry of Finance highlight the potential of CWLS in expanding the public participation base (through retail investors) while channeling returns to verified social programs. This “blended Islamic finance” model strengthens both impact footprints and governance credibility (Ministry of Finance RI, 2022). Recent academic literature has also highlighted the performance and distribution schemes of retail CWLS social programs as a case study of integrating Islamic philanthropy with state financing (Fakhrurozi, 2023).

Further development has led to the concept of Cash Waqf Linked Blue Sukuk (CWLBS), proposed by the Indonesian Waqf Board for sustainable marine ecosystems, explicitly targeting the SDGs (e.g., SDG 14) through a sukuk coupon structure allocated to socio-environmental projects (Mutmainah, 2022). The proposed integration of green sukuk and CWLS illustrates a blended finance pathway that links sharia mandates with ESG standards in the financial sector, thereby expanding the spectrum of projects from renewable energy to coastal resilience (Musari, 2022).

Several studies have also introduced forest-based waqf as an innovative conservation scheme that combines land endowments with carbon financing/incentives and local livelihoods. The Lowy Institute’s analysis positions waqf-based forests as an Islamic philanthropic channel for climate mitigation/adaptation financing that is community-oriented, serving as a bridge between religious ethics, conservation, and impact finance (Ali & Permana, 2024). Follow-up studies highlight the potential for integrating voluntary carbon markets and the green economy agenda through forestry waqf assets (Ali et al., 2025).

From a scale perspective, the OECD (2025) highlights that cash waqf has the potential to be combined with other sharia instruments for water infrastructure and basic services projects. The OECD’s background note even cites estimates of voluntary cash waqf contributions in Indonesia (referring to studies by the World Bank/INCEIF/ISRA) and encourages joint structures that facilitate public–community sector financing (OECD, 2025). This underscores the leveraging power of waqf in closing the SDG financing gap, provided that its design follows solid governance principles and ESG disclosure standards.

A number of empirical studies demonstrate the socio-economic impact of investment/fund-based waqf, ranging from MSME empowerment to the support of social services, as well as its strategic alignment with the SDGs and national transformation agendas (e.g., Saudi Vision 2030). However, scholars also emphasize the need for standardized impact metrics so that welfare and environmental claims can be verified across projects and time periods (Elmahgop et al., 2025; Raimi et al., 2024). Recent literature further reveals barriers to optimizing CWLS, from product design and investor literacy to inter-agency coordination and

market incentives. Studies using DEMATEL/ANP methods rank the causal factors behind low absorption, indicating the need for adjustments in distribution channels, return–impact design, and value communication (Ryandono et al., 2025). These findings align with calls for waqf, when synergized with ESG, to be supported by professional nashir governance, fund flow transparency, and impact management that meets institutional investor expectations.

Methodologically, the recent research corpus tends to move from normative discourse toward operationalization: aligning shariah–ESG screening, developing disclosure indices, and adopting impact measurement tools (e.g., SROI/IRIS+) that are compatible with maqāṣid (Zain et al., 2024). Emerging research agendas include: the design of hybrid term sheets (CWLS–green/blue sukuk), risk-sharing mechanisms for community-based ecological projects, and independent impact assurance to mitigate the risks of impact-washing/greenwashing. This approach is expected to strengthen the credibility of “Waqf for Impact” as a socio-ecological financing ecosystem that is both shariah-compliant and ESG-aligned.

## **Research Methodology**

This study employs a qualitative approach, as the focus lies in developing an in-depth understanding of the concepts, regulations, and practices of waqf in relation to Environmental, Social, and Governance (ESG) principles and their contribution to the Sustainable Development Goals (SDGs). This approach is relevant given that the research does not merely aim to measure numerical data but also to examine the meanings, norms, and socio-ecological practices embedded within waqf instruments and ESG standards (Braun & Clarke, 2022).

Data collection was carried out through three main channels. First, a literature review involving reputable academic articles, reports from international organizations such as UNDP, OECD, and the World Bank, as well as official publications from waqf institutions. This review aimed to build a theoretical framework and identify the latest empirical evidence on the integration of waqf and ESG (Page et al., 2021). Second, regulatory analysis, namely an examination of laws and regulations related to waqf, Islamic social finance, and sustainability policies both in Indonesia and globally. This regulatory analysis is crucial to mapping the alignment or gaps between sharia norms, public policy, and ESG standards (OECD, 2025). Third, case studies on actual practices such as the Cash Waqf Linked Sukuk (CWLS) in Indonesia and Green/Blue Waqf initiatives.

## **Results**

- 1. Integration of Productive Waqf with ESG Principles: A Case Study on Islamic Financial Instruments for Sustainable Development**
  - 1.1 Indonesia: The Model of Integrating Waqf with Renewable Energy/Education Projects**

The concept of waqf in the Islamic tradition has long served as a means of social philanthropy to support education, healthcare, and community welfare. However, in contemporary developments, waqf is no longer confined to consumptive forms but has begun to be managed productively through investments that generate sustainable benefits. This

transformation is known as productive waqf, which focuses on empowering the economy of the Muslim community while simultaneously supporting broader development goals (Elmahgop et al., 2025). In line with this, ESG principles have emerged as a global ethical framework emphasizing environmental sustainability, social justice, and transparent governance in investment. The integration of ESG with waqf opens opportunities for the creation of Islamic financial instruments that are not only shariah-compliant but also aligned with international sustainability standards. Zain et al. (2024) further emphasize that the principles of *maqāṣid al-sharī'ah* share a fundamental alignment with ESG, particularly in aspects of social justice, environmental protection, and values-based governance.

A case study of ESG-based productive waqf implementation can be seen in the Cash Waqf Linked Sukuk (CWLS) program in Indonesia. This scheme combines cash waqf funds with sovereign sukuk instruments, where the returns are allocated to social programs such as education and healthcare. Through this mechanism, CWLS not only preserves the sustainability of waqf assets but also expands their social impact through an accountable investment model (Fakhrurozi, 2023; Ministry of Finance RI, 2022). Beyond CWLS, the concept of Green Waqf has also emerged as an innovation linking waqf with environmental agendas. UNDP (2022) introduced the Green Waqf Framework to encourage the management of waqf in supporting climate change mitigation, renewable energy, and nature conservation. A similar practice is demonstrated by waqf-based forest initiatives in Indonesia, which position waqf assets in forest management to protect ecosystems, absorb carbon, and empower local communities (Ali & Permana, 2024).

However, the implementation of ESG-based productive waqf still faces significant challenges. These barriers include limited public literacy, underdeveloped professional governance of *nazhir*, and a regulatory framework that is not yet fully integrated with global ESG standards. Ryandono et al. (2025) found that the success of instruments such as CWLS is strongly influenced by product design, value communication strategies, and institutional coordination. Thus, for productive waqf to synergize with ESG principles, transparent governance, capacity building for *nazhir*, and the integration of measurable sustainability metrics are required. From a development perspective, the synergy of waqf and ESG is highly relevant to the Sustainable Development Goals (SDGs) agenda. The OECD (2025) emphasizes that Islamic social finance, including waqf, holds great potential to close the SDG financing gap, particularly when combined with global sustainability standards.

## **1.2 Malaysia: The Experience of Modern *Nazhir* in Managing Waqf with ESG Principles**

Malaysia is often regarded as one of the most progressive countries in the modernization of waqf governance. This effort is supported by a relatively clear legal framework, government institutional backing, and the integration of Islamic financial innovations. Over the past decade, waqf management in Malaysia has been directed not only toward traditional social objectives but also toward supporting sustainability through the application of ESG principles. Accordingly, modern *nazhir* in Malaysia function as social asset managers who focus not only on ensuring the continuity of benefits but also on accountability, transparency, and environmental impact. One example of this practice is the development of Waqf Property Investment Funds (WPIF), initiated by the State Islamic Religious Councils (MAIN) in

collaboration with Islamic financial institutions. This model channels waqf funds into commercial and social property sectors that comply with both shariah and ESG principles, such as the construction of shariah hospitals, educational centers, and environmentally friendly housing projects. Elmahgop et al. (2025) emphasize that this approach has successfully expanded development financing sources while ensuring the sustainability of socio-economic benefits through modern governance based on ESG principles.

In addition, Malaysia has also promoted the corporate waqf model, in which companies allocate their assets or profits in the form of productive waqf. This initiative has been implemented by institutions such as Johor Corporation (JCorp), which pioneered the integration of waqf into corporate business strategies. This model not only enhances public trust but also positions ESG as an Islamic business ethics framework aligned with global standards. As noted by Mohd Thas Thaker et al. (2023), corporate waqf makes a significant contribution to social impact investment while strengthening the governance dimension in the management of Islamic philanthropic funds. In terms of the environment, several waqf institutions in Malaysia have begun developing green waqf, for instance through renewable energy projects, forest conservation, and community-based waste management programs.

However, despite these significant achievements, challenges remain in terms of transparency, reporting standardization, and impact measurement. Zain et al. (2024) emphasize the importance of developing a disclosure index capable of integrating maqāṣid al-sharī'ah principles with the ESG framework so that waqf governance can be audited and held accountable on a global scale. Malaysia's experience demonstrates that the modernization of nazar through ESG principles can strengthen the legitimacy of waqf as a sustainable Islamic financial instrument while simultaneously enhancing its contribution to the SDGs.

### **1.3 Middle East: Waqf- and ESG-Based Health and Green Technology Projects**

In the Middle East, waqf management has undergone significant transformation in line with the growing demand for sustainable social financing instruments. One of the most prominent sectors is healthcare. The long history of bimaristan (waqf-funded hospitals) established since the Abbasid era has now been revived in modern forms. For example, in Saudi Arabia and the United Arab Emirates, waqf funds are used to finance the construction of shariah hospitals, health research centers, and the provision of free medical services for vulnerable groups. Elmahgop et al. (2025) note that investment waqf in Saudi Arabia functions not only for education but also directly funds modern hospitals that emphasize ESG governance, such as financial transparency and the provision of inclusive healthcare services. This demonstrates that the social dimension of ESG can be integrated with traditional religious values to support SDG 3 (Good Health and Well-being).

In addition to the health sector, the Middle East also stands out in the development of green technologies based on waqf and Islamic finance. The United Arab Emirates, for instance, has utilized green sukuk instruments and waqf funds to support renewable energy projects such as solar farms in Dubai and Abu Dhabi. The Mohammed bin Rashid Al Maktoum Solar Park, one of the largest solar power plants in the world, although largely based on public investment, has also been linked to Islamic philanthropic mechanisms that enable community participation through green waqf (UNDP, 2022). This project aligns with the environmental dimension of ESG and supports SDG 7 (Affordable and Clean Energy).

Another innovation has emerged from Green Waqf initiatives in Qatar and Kuwait, which are directed toward water conservation and sustainable waste management. For example, in Qatar, waqf funds have been allocated to urban wastewater recycling projects to reduce dependence on energy-intensive desalination while simultaneously supporting the national energy transition agenda. The UNDP (2022) report emphasizes that this approach demonstrates the integration of waqf with green technologies that are oriented not only toward physical development but also toward climate change mitigation. The Middle Eastern experience shows that waqf can serve as a strategic instrument for financing vital projects in healthcare and green technology.

With professional nazhir governance and the integration of ESG standards, waqf in this region functions not only as a traditional philanthropic instrument but also as a social finance mechanism that supports the global sustainable development agenda. However, recent literature emphasizes that the success of these projects depends on transparency, regulatory innovation, and impact measurement in order to avoid greenwashing practices while simultaneously strengthening their socio-ecological legitimacy (Zain et al., 2024).

### Comparative Table of Waqf Implementation Models

Aspect	Indonesia – Integration of Waqf with Renewable Energy & Education	Malaysia – The Experience of Modern Nazhir with ESG Principles	Middle East – Health & Green Technology Projects
Model/ Innovation	Cash Waqf Linked Sukuk (CWLS): integrates cash waqf funds with sovereign sukuk; returns are allocated to social sectors such as healthcare, education, and renewable energy.	Corporate Waqf: Johor Corporation (JCorp) allocates a portion of corporate profits to productive waqf funds; managed under modern governance principles and ESG accountability.	Green & Health Waqf: Waqf funds are used to build hospitals, medical research centers, and finance clean energy projects (solar parks, water conservation) in the UAE, Qatar, and Saudi Arabia.
Focus of Social Impact	Scholarships, community healthcare services, Islamic education, and environmentally friendly energy projects in rural areas.	Community economic empowerment, healthcare, education, and sustainable social programs measured by ESG indicators.	Provision of free/affordable healthcare services, medical research, and support for the low-carbon energy transition.
Alignment with ESG	Still in the early stages; ESG integration has begun through social projects and green sukuk.	Well-developed; ESG serves as the main governance framework for corporate waqf.	Focus on E (environment) & S (social), with healthcare and clean energy projects, although governance (G) varies across countries.
Strategic Opportunities	Becoming an alternative financing instrument for the SDGs (education & clean energy).	Becoming a regional benchmark for ESG-based waqf governance.	Strengthening the global legitimacy of waqf as a socio-ecological financing instrument.

The table above illustrates the variations in waqf implementation models across three different contexts, Indonesia, Malaysia, and the Middle East, each with focuses and strategies that reflect the social, institutional, and regulatory dynamics of their respective regions. In Indonesia, waqf innovation is embodied through the CWLS, an instrument that integrates cash waqf funds with government securities. Through this mechanism, the returns from sukuk are allocated to finance social programs such as education, healthcare, and renewable energy

projects. This model demonstrates Indonesia's initial efforts to align waqf with the sustainability agenda, although it still faces challenges related to nazhir capacity and adaptive regulation.

In contrast, Malaysia demonstrates a more advanced practice through the corporate waqf model. The experience of Johor Corporation (JCorp) serves as evidence of how waqf management integrated with modern corporate governance can enhance social legitimacy and attract investor confidence. In this context, ESG principles are not merely rhetorical but have become an embedded governance framework in waqf management. This positions Malaysia as a regional benchmark in the professional and sustainable management of productive waqf. Meanwhile, the Middle East shows a strong focus on the health and green technology sectors. Waqf funds are utilized to build hospitals, medical research centers, and support clean energy projects such as solar parks and water conservation. These projects align with the environmental (E) and social (S) dimensions of the ESG framework, although governance (G) in some countries still faces challenges related to transparency and the standardization of impact reporting.

Comparatively, the three regions offer distinct strategic lessons. Indonesia illustrates how public financial innovation can integrate waqf into national development; Malaysia highlights the importance of nazhir professionalization and the integration of ESG into governance; while the Middle East underscores the potential of waqf as a driver for large-scale socio-ecological projects. Shared challenges that remain include the need for consistent impact reporting standards, the enhancement of nazhir capacity, and cross-sector collaboration to ensure sustainability. This comparison affirms that although each country's approach differs, all are moving in the same direction: positioning waqf as a sustainable financing instrument relevant to supporting the achievement of the SDGs.

## **2. The Potential of ESG-Based Waqf: A New Path for Islamic Finance toward Sustainability**

In contemporary Islamic finance discourse, waqf is increasingly regarded as an innovative financing model capable of addressing the challenges of sustainable development financing. Unlike traditional philanthropic instruments, modern waqf is managed productively through shariah-compliant investments that can generate sustainable returns for social, economic, and ecological purposes. Elmahgop et al. (2025) emphasize that investment waqf in Saudi Arabia, for example, has developed into an alternative funding mechanism for the education and health sectors, governed by transparency and sustainability principles aligned with the ESG framework. As an innovative instrument, waqf can also be integrated with modern financial instruments such as sukuk. Indonesia has become a pioneer through the launch of CWLS, which combines cash waqf funds with sovereign Islamic securities. Fakhrurozi (2023) notes that CWLS has successfully channeled returns to social programs such as healthcare and education, while also strengthening community participation in development.

Beyond the social sector, the concept of green waqf has also emerged as a breakthrough in supporting the sustainability agenda. The UNDP (2022) introduced the Green Waqf Framework, designed to promote the financing of renewable energy projects, forest conservation, and community-based natural resource management. This expands the scope of waqf from the social to the ecological realm, in line with SDG 7 (Affordable and Clean Energy)

and SDG 13 (Climate Action). Recent literature also highlights the potential of corporate waqf as a form of innovation in corporate governance. Mohd Thas Thaker et al. (2023) demonstrate that corporate waqf in Malaysia, integrated into corporate business strategies, has been able to strengthen corporate social investment while simultaneously enhancing public trust. This approach situates waqf within the broader framework of social impact investment, making it relevant both nationally and globally.

In contemporary discourse on Islamic finance, waqf is increasingly regarded as an innovative financing model with great potential to support the sustainable development agenda. The tradition of waqf, which in the classical era focused on financing mosques, schools, and hospitals, has now transformed into productive waqf, namely the professional management of endowments through investment instruments that generate sustainable benefits. Elmahgop et al. (2025) emphasize that investment waqf funds in Saudi Arabia, managed through endowment schemes, have been able to expand public access to education and healthcare services, while also functioning as an alternative financial instrument aligned with principles of sustainable governance.

As a form of innovation, waqf is now also combined with modern instruments such as sovereign sukuk. Indonesia has become a pioneer through the Cash Waqf Linked Sukuk (CWLS), in which cash waqf funds are collected from the public and then invested in sukuk. The returns from these sukuk are subsequently used to finance strategic social programs, including healthcare services, educational scholarships, and economic empowerment. Fakhrurozi (2023) shows that CWLS not only strengthens the role of waqf as a philanthropic instrument but also broadens the base of public participation in sustainable development in a measurable and transparent way.

Beyond the social sector, the concept of green waqf has emerged as an important innovation in addressing ecological challenges. The UNDP (2022) report introduced the Green Waqf Framework, designed to fund renewable energy projects, forest conservation, and water resource management. This initiative aligns with Environmental, Social, and Governance (ESG) principles and supports the SDGs, particularly SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action). Thus, waqf is not only a means of social distribution but also a financing instrument for the green transition agenda. Another innovation has emerged in the form of corporate waqf, which integrates waqf funds into corporate governance. In Malaysia, JCorp has pioneered this model by allocating part of its corporate profits as productive waqf to support social and health projects.

Mohd Thas Thaker, Thas Thaker, and Pitchay (2023) emphasize that corporate waqf can enhance a company's social legitimacy while expanding its economic and social impact, making it relevant as a form of sustainable social impact investment. Nevertheless, the optimization of waqf as an innovative financing model still faces challenges. The OECD (2025) highlights the importance of transparent governance, standardized impact reporting mechanisms, and adaptive regulatory frameworks to enable waqf to make a greater contribution in bridging the SDG financing gap. Therefore, synergy between Islamic spiritual values, ESG principles, and modern governance practices is essential to strengthen waqf's capacity as a pillar of global social finance.

### **3. Challenges in Implementing the Synergy of Waqf and ESG**

One of the main challenges in implementing the synergy between waqf and ESG principles is the lack of an adaptive regulatory framework. In many Muslim jurisdictions, waqf regulations are still oriented toward their traditional function as a consumptive philanthropic instrument, and have not been fully designed to support productive models, sustainable investments, or hybrid instruments such as CWLS. This creates limitations for nazhir as well as Islamic financial institutions in integrating waqf with global sustainability standards. The OECD (2025) emphasizes that regulatory systems that are not adaptive to socio-financial innovations risk widening the financing gap for sustainable development. Without progressive legal and governance reforms, instruments such as productive waqf will struggle to develop into impact investment models that are compatible with ESG.

The study by Zain et al. (2024) also highlights the need to develop a disclosure index that integrates maqāṣid al-sharī'ah with ESG principles. At present, many waqf regulatory frameworks do not mandate standardized reporting on social and ecological impacts, resulting in weak accountability and transparency. This condition reduces the interest of social investors and financial institutions, who increasingly demand measurable impacts before participating in Islamic financial instruments. On the other hand, research by Ryandono et al. (2025) finds that the implementation of CWLS in Indonesia still faces regulatory challenges, particularly in synchronizing policies between financial authorities, the Ministry of Religious Affairs, and waqf management institutions. The existing regulations have not yet fully adapted to market needs and investor dynamics, creating barriers to product optimization.

The institutional capacity of nazhir is a key factor in determining the effectiveness of modern waqf management. Nazhir are no longer positioned merely as custodians of assets, but as social investment managers who are required to possess governance expertise, financial competence, and sensitivity to sustainability. Elmahgop et al. (2025) emphasize that the success of investment waqf in Saudi Arabia largely depends on the professionalism of nazhir in managing funds through financial instruments that are both Sharia-compliant and oriented toward sustainable development. These findings indicate that limited nazhir capacity can undermine the credibility of waqf in the eyes of social investors as well as Islamic financial institutions.

In Southeast Asia, particularly in Malaysia, the capacity of nazhir has been developed through institutional modernization. The corporate waqf model pioneered by JCorp demonstrates that when nazhir are integrated with modern corporate governance, the effectiveness and accountability of waqf management increase significantly (Mohd Thas Thaker, Thas Thaker, & Pitchay, 2023). Malaysia's experience serves as evidence that nazhir with strong institutional capacity are able to attract institutional investors due to greater transparency and higher reporting standards. However, the challenge of nazhir capacity remains significant in many Muslim countries. The study by Ryandono et al. (2025) on the Cash Waqf Linked Sukuk (CWLS) in Indonesia found that limitations in human resources of nazhir, inter-institutional coordination, and a lack of financial literacy are the main obstacles to optimizing the role of waqf as a social finance instrument.

In addition to management aspects, the institutional capacity of nazhir also includes the ability to adapt to technology. UNDP (2022), through the Green Waqf Framework, emphasizes the importance of digitalization in waqf governance, ranging from asset recording

to reporting social-ecological impacts. Nazhir who are unable to integrate digital technology will struggle to maintain transparency, accountability, and public engagement. This has become increasingly urgent given the demands of social investors for measurable and regularly auditable impact reports. The institutional capacity of nazhir is therefore a strategic aspect that must be strengthened through professionalized management, technology adoption, and regulatory reinforcement that supports modern governance. Nazhir with strong institutional capacity not only safeguard the sustainability of waqf assets but also ensure their contribution to achieving the SDGs through transparent, accountable, and sustainability-oriented governance.

Although the sustainability reporting ecosystem is rapidly evolving, practices for reporting social and environmental impacts remain fragmented, making it difficult to compare across organizations, regions, and financing instruments. On the one hand, the International Sustainability Standards Board (ISSB) has issued IFRS S1 (general sustainability disclosures) and IFRS S2 (climate), effective for reporting periods beginning January 1, 2024. Both establish a “global baseline” focused on financial materiality through four pillars, governance, strategy, risk management, and metrics & targets, aligned with the TCFD. However, adoption is still at an early stage and primarily oriented toward enterprise value, rather than comprehensive measurement of social–environmental impacts at the level of outcomes and impacts. This gap has led to variations in metrics and approaches across market participants (IFRS Foundation, 2024a, 2024b).

In the European Union, the Sustainable Finance Disclosure Regulation (SFDR) requires market participants to disclose sustainability risks (outside-in) and adverse impacts on the environment and society (inside-out). However, recent policy evaluations and stakeholder feedback highlight the lack of legal clarity on key concepts, the limited relevance of certain requirements, and issues of data availability, thereby reducing comparability and potentially opening the door to greenwashing. The European Commission, through the Platform on Sustainable Finance, has even called for simplification of taxonomy/classification and improvements to product architecture, indicating that the existing standards are not yet adaptive to the need for consistent impact reporting (European Commission, n.d.; EU Platform on Sustainable Finance, 2025; Hogan Lovells, 2025).

In the realm of impact investing, the GIIN 2024 market survey found progress in the adoption of the Impact Measurement & Management (IMM) framework and IRIS+, but it also acknowledged persistent challenges related to data quality, indicator alignment, impact attribution, and the need for independent verification to ensure that results are truly reliable and decision-useful for investors. These findings confirm the gap between investors’ demand for credible impact data and the still-fragmented reporting standards (Global Impact Investing Network [GIIN], 2024; see also GIIN, 2023 for IMM practices).

In the field of biodiversity, the Global Reporting Initiative has updated its standards to GRI 101: Biodiversity 2024, which requires location-specific reporting, value chain coverage, and a mitigation hierarchy, an enhanced ambition relevant to nature-related impacts. However, the standard will only become fully effective in 2026, meaning that in the short term, nature impact reporting still faces methodological inconsistencies across many companies and sectors (GRI, 2024a, 2024b). In parallel, the adoption of the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations is expanding (with hundreds of organizations across more than 40 countries), but its implementation and integration into mainstream reporting

remain gradual, reflecting a transitional phase from framework emergence to the standardization of practice (Reuters, 2024).

At the level of development policy, the OECD (2025) emphasizes that strengthening accountability, transparency, and measurement tools is a prerequisite for closing the SDG financing gap. As long as impact indicators are not standardized and auditable, the effectiveness of financing strategies, including Islamic philanthropy/waqf and ESG instruments, will be difficult to demonstrate convincingly, thereby reducing the interest of institutional investors (OECD, 2025). Recent evidence shows that the lack of impact reporting standards—whether due to differing objectives (enterprise value vs. impact), variability in sectoral metrics, or regulatory gaps—hampers comparability, credibility, and evidence-based capital allocation. Cross-framework harmonization (ISSB–GRI–TNFD), regulatory refinement (e.g., SFDR revision), and the strengthening of IMM practices (GIIN/IRIS+) constitute three key levers to close this gap and ensure impact reporting that is reliable, comparable, and decision-useful for the market (IFRS Foundation, 2024a, 2024b; EU Platform on Sustainable Finance, 2025; GIIN, 2024; GRI, 2024a).

#### **4. Prospects for the Synergy of Waqf and ESG and Strategies for Future Strengthening**

In the era of sustainable finance, the integration of social and ecological impact reporting has become an urgent necessity to ensure transparency, accountability, and comparability across sectors. Until now, sustainability reporting has often been fragmented between financial, social, and environmental aspects, thereby reducing its effectiveness as a basis for decision-making. The OECD (2025) report emphasizes that without an integrated and auditable reporting system, the mobilization of sustainable finance will not be optimal in closing the Sustainable Development Goals (SDGs) financing gap. Efforts toward integration have been realized through the issuance of global standards such as IFRS S1 and IFRS S2 developed by the International Sustainability Standards Board (ISSB). These two standards, effective since 2024, emphasize the disclosure of sustainability risks and opportunities that are material to enterprise value. Although initially focused on financial aspects, this framework paves the way for unifying social–ecological reporting within the core financial reports of companies (IFRS Foundation, 2024).

In addition to ISSB, GRI has also updated key standards such as GRI 101: Biodiversity 2024, which requires companies to disclose ecological impacts at the location level, across supply chains, and through the mitigation hierarchy. With this focus, GRI provides a broader social and ecological dimension, complementing the ISSB's enterprise value-oriented approach (GRI, 2024). The integration of these two frameworks is increasingly seen as a strategic step toward comprehensive impact reporting standards. In the field of impact investing, the Global Impact Investing Network (GIIN) emphasizes the importance of Impact Measurement and Management (IMM) through the IRIS+ framework to ensure that impact reporting is not only descriptive but also measurable and globally comparable. The GIIN (2024) report shows that investors are demanding more credible and consistent impact data, making the integration of social, ecological reporting with financial standards increasingly necessary to attract institutional capital.

Furthermore, the adoption of the Taskforce on Nature-related Financial Disclosures (TNFD) framework since 2023 marks an important shift in the integration of ecological reporting. By involving hundreds of organizations across countries, TNFD provides guidance on how nature-related risks and opportunities can be incorporated into corporate disclosures. This complements the broader trend of integration, in which social, environmental, and financial dimensions are no longer separated but reported within interconnected frameworks (Reuters, 2024). The integration of social–ecological impact reporting is now moving toward global alignment through the harmonization of ISSB, GRI, GIIN, and TNFD standards. However, challenges remain in terms of data quality, independent verification, and regulatory implementation at the local level. For the context of Islamic finance, including productive waqf, such integration is increasingly important to ensure that traditional instruments can be accepted in a global market that demands impact transparency.

The effectiveness of implementing productive waqf based on Environmental, Social, and Governance (ESG) principles largely depends on multi-stakeholder collaboration, particularly among regulators, nazhir, and market players. Progressive regulations without the support of nazhir's institutional capacity and market incentives often fail to generate optimal impact. Similarly, the professionalism of nazhir will be difficult to develop without an adaptive legal framework and the active involvement of the financial sector. Therefore, cross-actor collaboration is key to positioning waqf as an innovative financing instrument in support of the SDGs.

The OECD (2025) emphasizes that the development financing gap can only be bridged through synergy between governments, financial institutions, and non-state actors. In the context of Islamic finance, this means regulators must provide a clear legal and governance framework, nazhir serve as professional managers of waqf assets, while market players bring forward innovative instruments and investment networks. Without close collaboration, the mobilization of waqf funds for sustainable development will remain limited. The study by Ryandono et al. (2025) on the Cash Waqf Linked Sukuk (CWLS) in Indonesia shows that the success of this instrument is highly dependent on coordination between the Ministry of Finance, the Indonesian Waqf Board, Islamic financial institutions, and nazhir. Challenges such as low public literacy and suboptimal investment governance can be addressed through consistent communication of values and stronger institutional synergy.

In Malaysia, the experience of corporate waqf implemented by JCorp also illustrates the importance of synergy between corporations, religious institutions, and regulators. Mohd Thas Thaker, Thas Thaker, and Pitchay (2023) note that the success of this model is not only due to private sector innovation but also the presence of regulatory support and oversight that ensure transparency and accountability. Such collaboration allows waqf to enter the realm of modern corporate investment without losing its social legitimacy. Furthermore, UNDP (2022), in the Green Waqf Framework, emphasizes that mainstreaming waqf to support climate agendas requires a collaborative platform that unites governments, waqf institutions, investors, and civil society. Collaboration among regulators, nazhir, and market players is not only a supporting factor but also an institutional prerequisite to ensure waqf's role in the sustainable finance ecosystem. This multi-stakeholder synergy must be directed toward three main agendas: strengthening governance, enhancing nazhir capacity, and integrating waqf with financial markets through instruments compatible with ESG standards.

In the context of the transition toward sustainable development, there is a growing need to design a waqf governance model that is not only oriented toward traditional social objectives but also aligned with the principles of the green economy. The green economy emphasizes inclusive growth that is low-carbon, resource-efficient, and socially just (OECD, 2025). Integrating this concept into waqf management encourages the creation of financing mechanisms capable of addressing environmental challenges while strengthening the socio-economic resilience of communities. The UNDP (2022) Green Waqf Framework report underscores that waqf can be optimized to support renewable energy projects, forest conservation, and community-based water resource management. With accountable management, waqf functions not only as a philanthropic instrument but also as a catalyst for the green transition in Muslim-majority countries. The governance model proposed by UNDP highlights the importance of integrating Shariah values, ESG standards, and SDG indicators into every stage of waqf planning and reporting.

Malaysia's experience provides a concrete example through the development of corporate waqf integrated with corporate sustainability practices. Mohd Thas Thaker, Thas Thaker, and Pitchay (2023) note that corporate waqf managed by Johor Corporation (JCorp) has been able to allocate resources to socio-ecological projects, including environmentally friendly infrastructure. This model demonstrates that when waqf governance is adapted to principles of transparency, accountability, and sustainability, it can operate in alignment with the green economy framework.

On the other hand, the study by Elmahgop et al. (2025) highlights how investment waqf funds in Saudi Arabia are beginning to be directed toward strategic sectors such as health education and renewable energy research. This demonstrates a shift in waqf governance from a consumptive pattern toward a productive orientation with a dual impact: improving people's quality of life while also mitigating environmental challenges. The integration of waqf governance with the green economy requires measurable impact reporting standards. Zain et al. (2024) propose a disclosure index model that combines maqāṣid al-sharī'ah with ESG principles, so that waqf management can be evaluated not only in terms of Shariah compliance but also its contribution to ecological and social sustainability.

Waqf governance aligned with the green economy requires three main pillars: the professionalization of nazhir, the integration of sustainability indicators, and multi-stakeholder collaboration. A waqf governance model in harmony with the green economy has the potential to position waqf as an innovative financing instrument capable of strengthening the transition toward a low-carbon, inclusive, and sustainable development pathway. Regulatory reform, the enhancement of nazhir's institutional capacity, and harmonization with global ESG standards are prerequisites for waqf to provide a strategic contribution within the global green economy ecosystem.

## **5. Policy Recommendations for Strengthening Productive Waqf within the ESG Framework in Indonesia**

Regulatory strengthening is a fundamental element in directing waqf from being merely a traditional philanthropic instrument toward a sustainable financing mechanism aligned with Environmental, Social, and Governance (ESG) principles. To date, many waqf legal frameworks in Muslim countries remain focused on consumptive functions, such as building

mosques or schools, and have not fully accommodated the needs of modern governance that demand accountability, transparency, and social–ecological impact reporting. As a result, the potential of waqf to serve as a catalyst for sustainable development remains far from optimal. A strong regulatory framework is needed to ensure legal certainty, professional governance, and alignment with global standards. The OECD (2025) emphasizes that social finance innovations, including waqf, will only attract investor participation if accompanied by credible and transparent regulation. Strengthening ESG-based waqf regulation should focus on three main aspects: 1) Harmonizing waqf regulations with global sustainability standards; 2) Mandating measurable social and environmental impact reporting; and 3. Strengthening the role of regulators in overseeing collaboration among nazhir, financial institutions, and market players.

Practical experience demonstrates the urgency of this matter. Ryandono et al. (2025) found that the implementation of the Cash Waqf Linked Sukuk (CWLS) in Indonesia still faces regulatory coordination challenges among the Ministry of Finance, the Indonesian Waqf Board, and financial market authorities. The absence of regulations that unify Shariah standards, ESG reporting mechanisms, and financial accountability reduces the effectiveness of this instrument as an innovative financing model. Without regulatory strengthening, innovations such as CWLS or green waqf will struggle to develop sustainably.

Conversely, Malaysia has demonstrated that waqf governance can be strengthened through regulations supporting the corporate waqf model. JCorp, for instance, has successfully integrated waqf into its business strategy while remaining under the supervision of religious and financial regulators. This has provided legitimacy and enhanced public and investor trust, particularly due to regulatory clarity and transparent reporting standards (Mohd Thas Thaker, Thas Thaker, & Pitchay, 2023). In addition to institutional governance aspects, ESG-based waqf regulation must also emphasize impact reporting standards. UNDP (2022), through the Green Waqf Framework, underscores the importance of measuring waqf's contribution to climate mitigation, environmental conservation, and social empowerment.

Practical experience highlights the urgency of this issue. Ryandono et al. (2025) found that the implementation of the Cash Waqf Linked Sukuk (CWLS) in Indonesia still faces regulatory coordination barriers among the Ministry of Finance, the Indonesian Waqf Board, and financial market authorities. The absence of regulations that unify Shariah standards, ESG reporting mechanisms, and financial accountability reduces the effectiveness of this instrument as an innovative financing model. Without regulatory strengthening, innovations such as CWLS or green waqf will struggle to develop sustainably.

With regulations mandating impact reporting, waqf will no longer be assessed merely by the amount of funds managed but also by the extent to which it delivers tangible and measurable social-ecological benefits. Strengthening ESG-based waqf regulations is a prerequisite for waqf to transform into an Islamic financial instrument compatible with the global development agenda. Regulatory reform must be directed toward the integration of Shariah and ESG, the enforcement of accountability standards, and the establishment of incentive mechanisms for nazhir who successfully demonstrate positive social-ecological impacts. Without these measures, waqf risks remaining trapped in traditional patterns and losing its relevance within the modern sustainable finance ecosystem.

The institutional capacity of waqf managers, or nazhir, is a key factor in the successful transformation of waqf from a traditional philanthropic model into an innovative and

sustainable social financing instrument. Without capacity strengthening, waqf management risks being trapped in minimalist administrative practices, lacking transparency, and unable to meet the demands of modern governance. Therefore, capacity building for nazhir must be directed toward enhancing asset management skills, Shariah financial literacy, accountability-based governance, and the ability to integrate Environmental, Social, and Governance (ESG) principles into management strategies. International standard-setting organizations have provided an important foundation for this agenda. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), through the Waqf Governance Standard and FAS 37, emphasizes the need for specific accounting, auditing, and governance standards for waqf institutions.

The Waqf Core Principles (WCP) initiative developed by Bank Indonesia, the Indonesian Waqf Board, and the Islamic Development Bank (IsDB) underscores the importance of strengthening legal aspects, supervision, risk management, and good governance in waqf administration. This document emphasizes that nazhir should not only understand jurisprudential aspects (*fiqh*), but are also required to master modern asset management practices and digital technology in order to expand community participation and public transparency (IsDB & BI, 2018). Recent literature also stresses the importance of skills in impact measurement and management (IMM). The Global Impact Investing Network (GIIN, 2024) report shows that social investors are increasingly demanding credible and measurable impact data before channeling their investments.

In practice, countries such as Malaysia have demonstrated how capacity building can enhance the role of waqf in the development sector. The corporate waqf model developed by Johor Corporation (JCorp) has proven successful in attracting institutional investors because its nazhir possess corporate governance capacity equivalent to modern business standards (Mohd Thas Thaker, Thas Thaker, & Pitchay, 2023). Meanwhile, UNDP (2022), through the Green Waqf Framework, emphasizes the need to strengthen the technical capacity of nazhir to support renewable energy projects, conservation, and climate adaptation. Strengthening the capacity of nazhir must be viewed as a long-term strategy to ensure the sustainability of waqf management. This includes regulatory reform, management professionalization, digital technology adoption, and the integration of global impact standards.

The development of sustainability reporting standards for waqf portfolios is a strategic step to ensure that waqf management not only fulfills Shariah compliance but is also accountable from social, ecological, and governance perspectives. Until now, waqf management reports have largely focused on conventional financial accountability, while sustainability dimensions, such as social impact, economic inclusion, and contributions to climate change mitigation, have not yet become an integral part of reporting mechanisms. International efforts to harmonize sustainability reporting standards can serve as a reference in the context of waqf. The International Sustainability Standards Board (ISSB), through IFRS S1 and IFRS S2 (2024), has established a baseline for sustainability disclosures related to governance, strategy, risk management, as well as relevant metrics and targets. These standards create opportunities for nazhir to integrate waqf management into global reporting frameworks, making it more attractive to investors who increasingly demand transparency on sustainability risks and opportunities (IFRS Foundation, 2024). In addition to ISSB, the Global Reporting Initiative (GRI) complements the reporting framework with impact-based

standards, including GRI 101: Biodiversity 2024, which emphasizes transparency regarding organizations' contributions to ecosystems and communities (GRI, 2024).

The institutional capacity of waqf managers, or *nazhir*, is a determining factor in the successful transformation of waqf from a traditional philanthropic model into an innovative and sustainable social financing instrument. Without capacity strengthening, waqf management risks being trapped in minimalist administrative practices, lacking transparency, and unable to meet the demands of modern governance. Therefore, capacity building for *nazhir* must be directed toward enhancing asset management skills, Shariah financial literacy, accountability-based governance, and the ability to integrate Environmental, Social, and Governance (ESG) principles into management strategies. International standard-setting organizations have provided an important foundation for this agenda. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), through the Waqf Governance Standard and FAS 37, emphasizes the need for specific accounting, auditing, and governance standards for waqf institutions.

In the context of Islamic social finance, the study by Zain et al. (2024) shows that the integration of *maqāṣid al-sharī'ah* with ESG principles needs to be operationalized through consistent reporting standards. They emphasize that waqf management must go beyond traditional financial reporting by adopting a disclosure index that measures the extent to which waqf portfolios contribute to social justice, environmental protection, and transparent governance. The GIIN (2024) report also highlights that in impact investing practices, data quality and indicator alignment remain key challenges. Therefore, the application of the Impact Measurement and Management (IMM) framework, such as IRIS+, is highly relevant for waqf portfolios, as it provides standardized global metrics that can be used to systematically evaluate social-ecological impacts.

The development of sustainability reporting standards for waqf portfolios should be directed toward an integrative model: 1) Combining the ISSB baseline (IFRS S1–S2) for transparency on risks and opportunities; 2) Adopting GRI to measure social and ecological impacts; 3) Using IRIS+/IMM for alignment with global impact investing practices, and 4) Developing a disclosure index based on *maqāṣid al-sharī'ah* as the normative Islamic foundation. This model will strengthen the legitimacy of waqf as a sustainable financing instrument while also increasing social investors' interest in supporting waqf-based projects.

The transformation of waqf into a sustainability-oriented social finance instrument requires cross-sectoral collaboration. Waqf can no longer be managed exclusively by religious institutions or *nazhir* alone; it requires synergy among regulators, financial institutions, corporations, civil society, and international organizations. The OECD (2025) emphasizes that the sustainable development financing gap can only be bridged through multi-stakeholder orchestration, in which Islamic finance, including waqf, has the potential to become a significant alternative financing source if integrated into the global policy ecosystem. This collaboration has proven capable of producing innovation. In Indonesia, the implementation of CWLS demonstrates how cooperation between the Ministry of Finance, the Indonesian Waqf Board, and Islamic financial institutions can create a new instrument that channels waqf returns to the health, education, and social empowerment sectors (Ryandono et al., 2025).

The Waqf Core Principles (WCP) initiative developed by Bank Indonesia, the Indonesian Waqf Board, and the Islamic Development Bank (IsDB) underscores the importance of strengthening legal aspects, supervision, risk management, and good governance

in waqf administration. This document emphasizes that nazhir should not only understand jurisprudential aspects (fiqh), but are also required to master modern asset management practices and digital technology in order to expand community participation and public transparency (IsDB & BI, 2018). Recent literature also highlights the importance of impact measurement and management (IMM) skills. The Global Impact Investing Network (GIIN, 2024) report shows that social investors are increasingly demanding credible and measurable impact data before allocating their investments.

Malaysia's experience also offers important lessons. The corporate waqf model developed by JCorp demonstrates that private sector involvement can expand the scale of waqf's impact. The success of this model is supported by the backing of religious regulators, corporate governance accountability, and community participation, enabling waqf to function not only as charity but also as a social impact investment instrument (Mohd Thas Thaker, Thas Thaker, & Pitchay, 2023). Cross-sector collaboration is becoming increasingly relevant in the context of green waqf. The UNDP (2022) report on the Green Waqf Framework emphasizes that leveraging waqf for renewable energy projects, nature conservation, and climate adaptation requires cooperation between waqf institutions, relevant ministries, civil society organizations, and global investors. Without multi-stakeholder collaboration, the potential of waqf as a catalyst for the green transition will be difficult to realize effectively.

## **Conclusion**

The synergy between waqf and ESG principles demonstrates great potential in transforming the role of waqf from merely a traditional philanthropic instrument into a strategic catalyst for sustainable development. This integration enables waqf to function not only as a consumptive form of charity but also as a social investment instrument capable of generating a dual impact: sustainable economic benefits alongside tangible contributions to environmental protection, social justice, and transparent governance. By adopting ESG principles, waqf management gains new legitimacy in the eyes of social investors and global financial institutions that increasingly demand accountability and measurable impact assessment. Models such as the Cash Waqf Linked Sukuk in Indonesia, corporate waqf in Malaysia, and health and green technology initiatives in the Middle East prove that waqf can be transformed into an innovative financing mechanism relevant to the Sustainable Development Goals (SDGs) agenda.

Productive waqf based on ESG holds strategic potential to become a key supporting instrument in realizing a green economy while accelerating the achievement of the Sustainable Development Goals (SDGs). This transformation affirms that waqf is no longer confined to its traditional charitable function but can be managed productively with sustainability principles that prioritize environmental protection, social justice, and transparent governance. Through ESG integration, waqf management is directed toward financing priority sectors such as renewable energy, education, health, and natural resource conservation. This not only generates socio-economic benefits for communities but also supports the global agenda in climate change mitigation, inequality reduction, and the strengthening of social cohesion. Thus, ESG-based waqf functions as an innovative financial mechanism aligned with the green transition and inclusive development agenda. The existence of productive waqf aligned with ESG strengthens the role of Islamic finance within the global sustainable finance architecture.

Waqf is capable of bridging spiritual values and the practical needs of modern development, offering an instrument rooted in ethical principles while also meeting internationally recognized standards of transparency and accountability.

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