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Implementation of Cash Waqf Linked Deposit in Islamic Banking in Indonesia: Regulations, Opportunities, Challenges, and Digital Era Prospects

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Abstract

This study aims to analyze the implementation of CWLD in Islamic banking within the digital era by examining its regulatory framework, institutional challenges, and prospects in Indonesia. Using a qualitative literature-based research approach, this study reviews academic publications, regulatory documents, and institutional reports related to cash waqf, Islamic banking, and digital financial innovation. The findings indicate that although CWLD has substantial potential to promote financial inclusion and strengthen Muslim community empowerment, its development remains constrained by the absence of comprehensive technical regulations, institutional fragmentation, low public literacy on cash waqf, limited digital infrastructure, and inadequate managerial capacity of nazhir institutions. Nevertheless, the digital era presents significant opportunities for CWLD development through the integration of technological platforms such as blockchain, Islamic crowdfunding, and digital banking systems. This study contributes to the literature on Islamic social finance by providing a structured analysis of CWLD as an innovative instrument and offers practical insights for policymakers, Islamic banks, and waqf institutions to strengthen regulatory support, enhance public literacy, and foster institutional collaboration to position CWLD as a key pillar of an inclusive and sustainable Islamic financial system.

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INTRODUCTION

The development of the Islamic economy in Indonesia has experienced significant acceleration. According to the *State of the Global Islamic Economy (SGIE) Report 2024/2025,* published by Dinar Standard, a strategic international research institution based in New York and Dubai, Indonesia ranks third globally in advancing the Islamic economy. This progress is driven by the increasing public demand for halal products, including Islamic banking, takaful (Islamic insurance), and philanthropic financial instruments. (Kementerian keuangan, 2025).

Among the emerging Islamic philanthropic instruments gaining traction in the context of financial inclusion and sustainable economic development is cash waqf. As a Sharia-compliant mechanism for collecting and managing funds productively, cash waqf offers considerable potential for empowering the Muslim community. One notable innovation in the management of cash waqf in recent years is the Cash Waqf Linked Deposit (CWLD), a sustainable waqf investment model based on Islamic term deposits. In this structure, the principal is temporarily endowed, while the returns are utilized to fund public welfare programs (Nur Arbaien & Nurkaromah, 2025). The CWLD scheme consists of three core components: temporary cash waqf, Sharia-compliant deposits, and

Islamic financing. This model is considered highly innovative, as it allows temporary waqf capital to generate permanent social benefits, particularly in education and poverty alleviation (Gultom & Mihajat, 2024).

In Indonesia, cash waqf is legally regulated under Law No. 41 of 2004 on Waqf and Government Regulation No. 42 of 2006. The Financial Services Authority (OJK) has also issued technical guidelines through circular letters to guide the management of financial products based on waqf. Data from the Indonesian Waqf Board (BWI) indicate a consistent increase in the collection of cash waqf funds over the past five years.

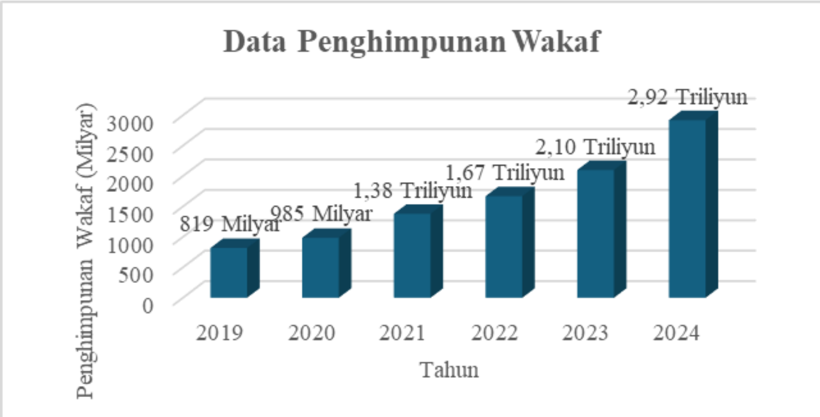

Figure 1.1
Cash Waqf Collection Data 2019-2024
Source: BWI Data (2024)

However, the realization still accounts for less than 1% of the estimated national potential, which reaches IDR 180 trillion annually. (BWI, 2025). This significant gap underscores the urgency of developing instruments such as CWLD to attract waqf contributions, both through conventional methods and through integration with financial technology.

The prospects of CWLD appear highly promising, supported by government policy and the growing number of certified Islamic Financial Institutions authorized to manage cash waqf (LKS-PWU), which increased from 18 in 2019 to 50 in 2024 (Kemenag, 2024). Public interest in socially responsible investments with spiritual value is also on the rise. Alongside the digital transformation of the financial sector, innovation in cash waqf management is gaining momentum. The digital era has enabled the integration of financial technology with Islamic banking services, facilitating more efficient, transparent, and accountable collection, management, and distribution of waqf funds. (Mohd Thas Thaker et al., 2020). Digital platforms present a major opportunity to broaden the base of *wakif* (donors), particularly among the younger, tech-savvy generation, while also strengthening accountability in waqf institutions.

According to reports from the Indonesian Internet Service Providers Association (APJII), We Are Social, and the Ministry of Communication and Information, Indonesia had an estimated 221 million internet users in 2024 out of a total population of approximately 278 million, with a penetration rate of 79.5% (APJII, 2024). Moreover, smartphone usage reached around 75% of the population, with more than 210 million active users. (BPS, 2024). These digital conditions support the scalability of digital waqf services.

Nevertheless, the implementation of CWLD in the digital era faces several challenges. Despite the issuance of the CWLD Implementation Guidelines by the Financial Services Authority in October 2024, several technical and managerial issues remain to be addressed, including governance enhancements, risk mitigation, and consumer protection. Madani et al. (2024) highlight that the development of cash waqf is hindered by limited public understanding and inadequate regulatory support. According to Hassan and Aliyu (2018), Other challenges related to the integration of technology systems and data security are also important issues in managing Cash Waqf Linked Deposits. In light of these dynamics, this study on the Implementation of Cash Waqf-Linked Deposits in Islamic Banking during the Digital Era: Regulation, Opportunities, Challenges, and Prospects in Indonesia is both timely and relevant. It seeks to contribute theoretically and practically to the literature on Islamic social finance while offering strategic insights into optimizing CWLD as a sustainable waqf-based financial instrument in Indonesia.

The novelty of this article lies in its comprehensive and integrative analysis of Cash Waqf Linked Deposit (CWLD) by simultaneously examining regulatory, institutional, and digital dimensions within the Indonesian Islamic banking ecosystem. Unlike existing studies that predominantly focus on cash waqf from a normative, jurisprudential, or fundraising perspective, this study positions CWLD as a hybrid instrument that bridges Islamic commercial finance and Islamic social finance in the context of digital transformation. This article offers an original contribution by mapping the gap between the substantial national potential of cash waqf and its low realization through a regulatory–technological lens, highlighting how digital infrastructure, financial technology integration, and governance readiness influence CWLD implementation. Furthermore, this study advances the literature by explicitly incorporating recent regulatory developments, including the CWLD Implementation Guidelines issued by the Financial Services Authority in 2024, and by identifying strategic opportunities and challenges related to digital banking systems, data security, institutional collaboration, and managerial capacity. By proposing CWLD as a scalable, digitally enabled, and sustainable waqf-based investment model, this article provides a novel conceptual and practical framework for strengthening financial inclusion and sustainable development through Islamic social finance in Indonesia.

LITERATURE REVIEW

Basic Concept Of Cash Waqf Linked Deposit (CWLD)

Cash Waqf Linked Deposit (CWLD) is conceptualized as a temporary cash waqf instrument that integrates Sharia-compliant deposit products within the Islamic banking system, whereby the principal is preserved, and the returns are allocated for social and productive purposes (OJK, 2024). While several studies describe CWLD as an innovative Islamic social finance product that combines waqf and deposit mechanisms (Nur Arbaien & Nurkaromah, 2025; Utomo & Ismal, 2024). The existing literature largely remains descriptive and does not sufficiently explain *why* CWLD has not yet achieved its expected scale and impact despite its conceptual attractiveness. From the perspective of Islamic social finance, CWLD represents a hybrid model that blends philanthropic capital with commercial financial intermediation, aligning with the broader framework of blended finance that seeks to mobilize private funds for social objectives while maintaining financial sustainability.

From a *Maqāṣid al-Sharīʿah* perspective, CWLD inherently aims to preserve wealth (*ḥifẓ al-māl*) while promoting social welfare (*maṣlaḥah*), particularly through funding education, poverty alleviation, and community empowerment. However, prior studies tend to assume this alignment normatively, without critically assessing whether institutional arrangements, governance structures, and operational practices of CWLD effectively realize these maqāṣid objectives in practice. Sihite et al. (2025), for instance, emphasize CWLD's ability to maintain the waqf principle while distributing returns through mudharabah mutlaqah, yet they do not address potential governance risks, incentive misalignments, or institutional constraints that may undermine its socio-economic outcomes.

Furthermore, when viewed through the lens of institutional theory, CWLD's effectiveness depends not only on Sharia compliance but also on the coherence of regulatory frameworks, institutional roles, and inter-organizational coordination among Islamic banks, nazhir, and regulators. While Berakon et al. (2022) Highlighting the importance of public education and digital engagement, particularly among younger, tech-savvy donors, the literature does not sufficiently explore how institutional fragmentation, the limited managerial capacity of Nazhir, and weak governance mechanisms constrain CWLD implementation. This indicates an unresolved debate in the literature regarding whether CWLD's challenges stem primarily from low public literacy or from deeper institutional and governance failures.

Overall, existing studies acknowledge CWLD's potential as a tool for sustainable socio-economic development, yet they fall short of integrating Islamic normative objectives, institutional readiness, and financial intermediation functions into a unified analytical framework. This gap underscores the need for a more theory-driven examination of CWLD that moves beyond product description toward explaining its implementation dynamics.

Cash Waqf Linked Deposit (Cwld) Scheme In Islamic Banking

According to Arafah (2025) CWLD is a temporary cash waqf managed through Sharia deposits with contracts that comply with Sharia principles, where the principal amount is returned after a specified period, while the profit-sharing is distributed to the beneficiaries of the waqf (mauquf alaih). This scheme aims to combine social and business functions within Islamic banks as institutions receiving waqf. The CWLD scheme is divided into two categories:

Cash Waqf Linked Deposit (CWLD) without Financing

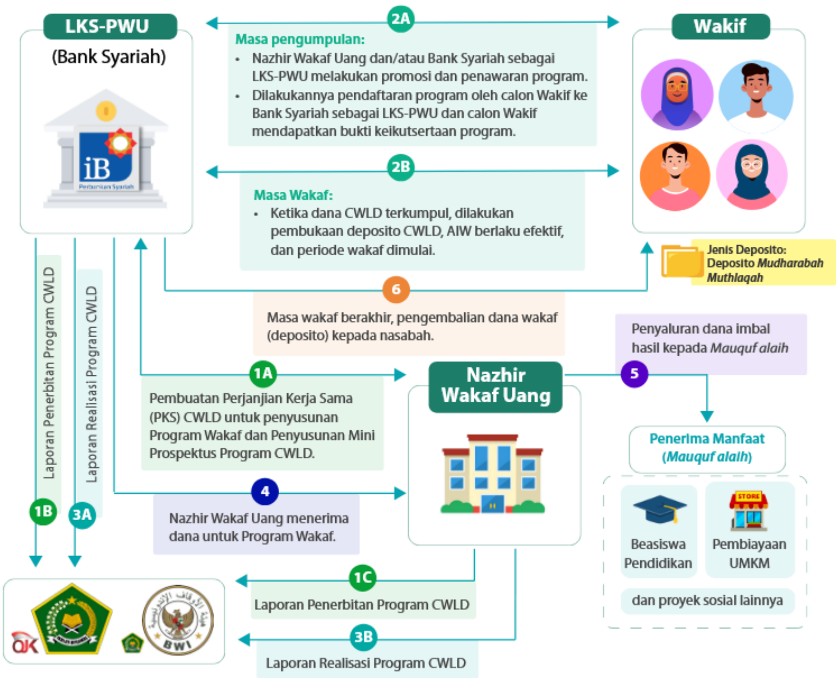

Figure 1.2
CWLD Scheme Without Financing
Source: OJK (2024)

In this scheme, the cash waqf funds entrusted by the waqif to the Islamic Financial Institution Receiving Cash Waqf (LKS-PWU) are placed in Sharia-compliant deposit instruments with contracts that adhere to Sharia principles. The principal waqf is maintained intact during the agreed period (temporary waqf), while the returns or rewards from the deposit placement are directly distributed to the nazhir to finance social programs such as education, health, and community empowerment. This scheme focuses on the security of waqf funds with low risk, without distributing funds to third parties for financing. After the waqf period ends, the principal amount is returned to the waqif as per the initial agreement. (OJK, 2024).

Cash Waqf Linked Deposit (CWLD) with Financing

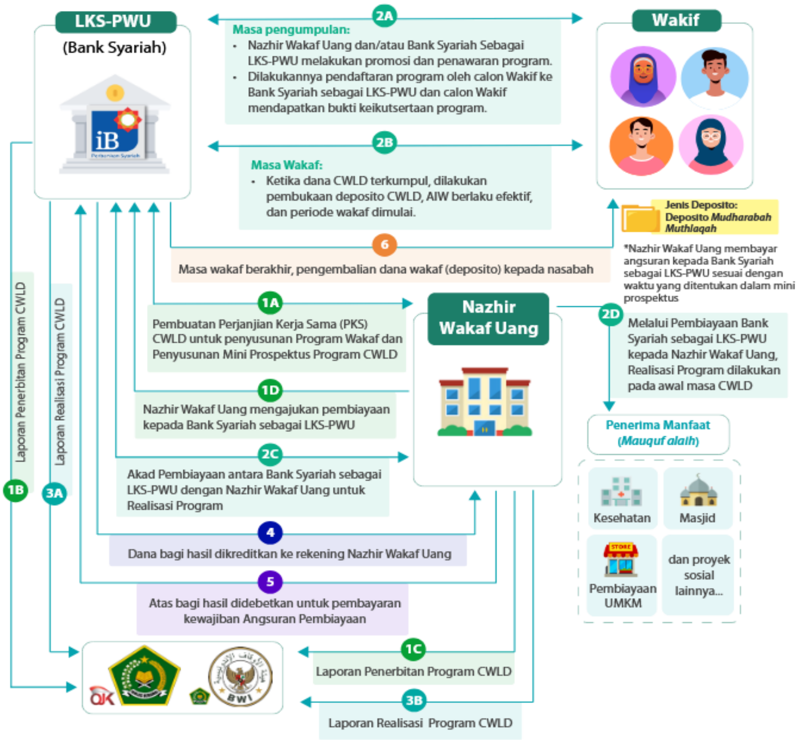

Figure 1.3
CWLD Scheme With Financing
Source: OJK (2024)

In this scheme, the cash waqf funds placed in Sharia deposits are utilized by the Islamic bank as a source of financing for customers in the real sector, through financing contracts such as murabahah, mudharabah, or musyarakah. The profits from this financing become part of the returns from the deposits, which are then distributed to the nazhir to fund social activities. This scheme not only provides social benefits from the profit-sharing but also encourages economic growth through financing in productive sectors. Although it has the potential for higher returns, this model requires effective risk management to anticipate problematic financing. (OJK, 2024).

Both models aim to operationalize Islamic banks' dual role as financial intermediaries and social institutions; however, the literature presents differing views on their relative effectiveness and risk profiles. In the CWLD without a financing scheme, waqf funds are placed in Sharia-compliant deposits, and the returns are directly distributed to nazhir for social programs, prioritizing capital preservation and low risk. (OJK, 2024). This model aligns closely with the precautionary principle in Islamic finance and supports ḥifẓ al-māl, yet it has been criticized implicitly for generating limited social impact due to relatively low returns.

In contrast, the CWLD with a financing scheme extends the role of Islamic banks as financial intermediaries by channeling waqf-linked deposits into real-sector financing through contracts such as murabahah, mudharabah, or musyarakah. From the perspective of financial intermediation theory, this model enhances the multiplier effect of waqf funds by linking philanthropic capital to productive economic activities. Nevertheless, existing studies tend to emphasize its higher return potential without adequately addressing the trade-off between increased social impact and heightened financing risk, particularly in the absence of robust risk management and governance frameworks. (OJK, 2024). This reflects a critical gap in the literature, where risk-sharing principles are acknowledged normatively but not empirically assessed in CWLD implementation.

Moreover, the current literature has yet to critically examine how these two CWLD schemes fit within a blended finance framework, where philanthropic funds are expected to crowd in additional capital while safeguarding social objectives. The lack of comparative analysis between CWLD schemes, particularly regarding governance quality, institutional accountability, and digital infrastructure readiness, limits our understanding of which model is more suitable in the context of Indonesia's evolving Islamic banking and digital ecosystem. In summary, while prior studies provide valuable insights into CWLD mechanisms and schemes, they do not sufficiently engage with theoretical debates on maqāṣid realization, institutional effectiveness, and financial intermediation functions. This literature review, therefore, highlights the need for a more integrative and critical analysis of CWLD that explicitly links Islamic social finance theory, institutional governance, and digital transformation, an analytical gap that this study seeks to address.

RESEARCH METHODS

His study employs a conceptual narrative literature review to examine the implementation of Cash Waqf Linked Deposit (CWLD) in Islamic banking during the digital era. This approach is chosen to enable a theory-driven and critical analysis of regulatory, institutional, and technological dimensions of CWLD, rather than an exhaustive mapping of prior studies as in a systematic review. Secondary data are drawn from peer-reviewed national and international journals, scholarly books, official reports, and relevant laws and regulatory guidelines, selected based on credibility, timeliness, and relevance.

The analysis follows a three-stage qualitative process. First, thematic mapping is applied to classify the literature into key analytical dimensions, including regulatory frameworks, institutional and governance arrangements, financial intermediation mechanisms, and digital integration in Islamic social finance. Second, a regulatory comparison framework is used to identify alignments and gaps between waqf regulations, Islamic banking regulations, and CWLD implementation guidelines. Third, a comparative and interpretive synthesis is conducted to examine convergent and divergent findings and to identify unresolved debates regarding CWLD effectiveness.

The analytical process is guided by a theory-based framework grounded in maqāṣid al-Sharīʿah, institutional theory, financial intermediation theory, and Islamic social finance and blended finance frameworks. Based on this synthesis, a conceptual framework is developed (Figure X) to illustrate how regulatory structures, institutional capacity, and digital infrastructure interact in shaping CWLD implementation outcomes in Indonesia.

RESULT AND DISCUSSION

Regulations And Legal Foundations Of Cash Waqf Linked Deposit

The findings indicate that the regulatory framework governing Cash Waqf Linked Deposit (CWLD) in Indonesia remains predominantly general and fragmented. Although Law No. 41 of 2004 on Waqf and Government Regulation No. 42 of 2006 provide the foundational legal basis for cash waqf, they do not specifically regulate the operational placement of waqf funds in Sharia banking instruments such as deposits. This regulatory gap has resulted in heterogeneous implementation practices among Islamic banks, as institutions rely on internal policies to operationalize CWLD, thereby generating inconsistencies in governance standards and risk management. (Adinugraha et al., 2023). From an institutional theory perspective, this condition reflects weak regulatory isomorphism, where the absence of coercive and normative pressures inhibits the standardization of CWLD practices across the Islamic banking sector.

The roles of the Financial Services Authority (OJK) and the National Sharia Council–Indonesian Ulema Council (DSN-MUI) are critical but insufficiently synchronized. While OJK Regulation No. 37/POJK.03/2018 opens space for Islamic banks to develop waqf-based deposit products; it lacks technical guidelines concerning contracts, fund guarantees, and reporting mechanisms. Similarly, DSN-MUI Fatwa No. 106/DSN-MUI/X/2016 provides Sharia legitimacy for placing cash waqf in Sharia-compliant financial instruments, yet its normative nature necessitates further operational elaboration. (Aufa et al., 2023; Hosen et al., 2022). The lack of integrated technical standards between OJK and DSN-MUI weakens regulatory effectiveness and heightens Sharia compliance risk, discouraging Islamic banks from scaling CWLD products.

Comparatively, Malaysia, Kuwait, and Singapore demonstrate more mature regulatory ecosystems characterized by institutional integration, standardized auditing systems, and explicit mandates for Islamic banks to manage productive waqf. Malaysia's model, coordinated through JAWHAR and Bank Negara Malaysia, exemplifies effective institutional alignment, where regulatory clarity enhances transparency and accountability. In contrast, Indonesia's sectoral regulatory approach, marked by overlapping authority among BWI, OJK, DSN-MUI, and the Ministry of Religious Affairs, constrains CWLD development. From the perspective of Maqāṣid al-Sharīʿah, this fragmentation undermines the realization of ḥifẓ al-māl (protection of wealth) and taḥqīq al-maṣlaḥah (public benefit), as CWLD remains underutilized as a productive social finance instrument.

In terms of Maqāṣid al-Sharīʿah, the absence of detailed technical regulations undermines the realization of *ḥifẓ al-māl* (protection of waqf capital) and *taḥqīq al-maṣlaḥah* (public benefit), as governance weaknesses increase Sharia compliance risks and reduce stakeholder trust. Therefore, regulatory effectiveness in Indonesia is not limited by legal recognition per se, but by the lack of institutional integration and enforceable operational standards.

Opportunities for Digitalization of CWLD Innovation in Islamic Banking

The findings indicate that digitalization constitutes a strategic enabler for the development of Cash Waqf Linked Deposit (CWLD), yet its effectiveness is highly contingent upon institutional readiness and regulatory alignment. CWLD, as a hybrid instrument integrating Islamic philanthropy (waqf) and Sharia-compliant financial intermediation, aligns conceptually with the digital finance transformation model that emphasizes inclusivity, efficiency, and transparency. However, empirical evidence suggests that digitalization in Indonesia remains transaction-oriented, rather than governance-oriented.

From a digital transformation perspective, the adoption of mobile banking, QRIS, and e-wallet integration has significantly lowered transaction costs and expanded access for retail and micro-waqifs. This supports the argument that digital channels enhance financial inclusion and democratize participation in Islamic social finance. Nevertheless, contrasting views emerge when digital access is not matched by end-to-end governance integration. While some studies emphasize that digital platforms inherently increase trust, comparative evidence from Malaysia and Singapore demonstrates that trust is primarily generated through institutionalized transparency, such as real-time reporting, Sharia audits, and standardized disclosure mechanisms, rather than technology alone.

Evaluated through the lens of institutional theory, Indonesia's digital CWLD initiatives remain weak in the regulative and normative dimensions. Digital platforms such as Berkah Wakaf and Islamic banking applications function largely as collection tools, lacking integration with supervisory authorities and standardized reporting systems. In contrast, Malaysia's e-Waqf and Singapore's wakaf.SG embeds digital waqf platforms within centralized governance structures, ensuring accountability and regulatory oversight. This institutional embedding transforms digitalization from a mere operational enhancement into a mechanism of governance legitimacy.

The opportunities for CWLD digitalization are further reinforced when examined through maqāṣid al-sharīʿah. Digital CWLD promotes ḥifẓ al-māl by enhancing fund traceability and minimizing mismanagement risks, while also advancing ʿadl (justice) and taysīr (facilitation) by enabling micro-waqf participation. However, without clear regulatory safeguards and Sharia-compliant governance frameworks, digital CWLD risks undermining maṣlaḥah, as efficiency gains may not translate into measurable socio-economic impact.

Blockchain and smart contract applications present a transformative yet contested opportunity. Proponents argue that immutable ledgers and automated profit allocation mechanisms strengthen accountability and ensure compliance with waqif intentions. Conversely, critics highlight that without legal recognition, supervisory integration, and Sharia governance protocols, blockchain adoption may introduce new operational and compliance risks. This divergence underscores that technological innovation must be accompanied by adaptive regulation, including regulatory sandboxes and Sharia digital standards, to be institutionally effective.

At the systemic level, digitalization also opens pathways for the globalization of CWLD, enabling cross-border participation from the Muslim diaspora through interoperable payment gateways and blockchain-based KYC systems. Yet, this opportunity remains largely unrealized in Indonesia due to fragmented governance and limited digital literacy. Empirical evidence indicates that security concerns and legal uncertainty continue to hinder adoption, particularly among younger, digitally literate populations.

In synthesis, digitalization offers substantial opportunities to reposition CWLD as an inclusive and sustainable Islamic social finance instrument. However, these opportunities will materialize only if digital innovation is embedded within a coherent institutional and governance framework that aligns regulatory effectiveness, Sharia objectives, and digital finance transformation models. Digitalization, therefore, should be understood not merely as a technological upgrade, but as a catalyst for institutional reform that enables CWLD to fulfill its maqāṣid-oriented socio-economic mandate.

Digitalization in Islamic banking has emerged as a key driver of innovation for financial products based on Islamic values, including the development of the Cash Waqf Linked Deposit (CWLD) scheme. CWLD represents a hybrid model that combines social (waqf) and financial (Sharia deposit) instruments, allowing waqifs to donate funds in cash that are placed as deposits in Islamic banks. Digitalization expands the opportunities for utilizing CWLD through modern distribution channels, transaction efficiency, transparency in fund management, and integration with the national Sharia financial system.

Barriers to the Implementation of Cash Waqf Linked Deposit (CWLD) in Islamic Banking

Regulatory Gaps and Institutional Fragmentation

The empirical findings confirm that the most fundamental barrier to CWLD implementation in Indonesia lies in regulatory ineffectiveness and institutional fragmentation. While Law No. 41 of

2004 and DSN-MUI Fatwa No. 02/DSN-MUI/IV/2002 provide normative legitimacy for cash waqf, they do not establish operationally binding rules governing CWLD mechanisms. This regulatory gap creates legal uncertainty concerning contractual structures, profit allocation, fund guarantees, duration, withdrawal rights, and reporting standards. v

From an institutional theory perspective, this condition reflects weak regulative and normative pillars, resulting in low institutional legitimacy and coordination failure. Hasbullah Hilmi (2024) Emphasizes that overlapping authority among BWI, OJK, BI, and DSN-MUI generates institutional ambiguity, discouraging Islamic banks from adopting CWLD due to legal and reputational risks. In contrast, comparative evidence from Malaysia and Singapore suggests that centralized governance and enforceable technical guidelines significantly reduce uncertainty and enhance institutional compliance.

From the standpoint of maqāṣid al-sharīʿah, regulatory fragmentation undermines ḥifẓ al-māl (protection of wealth) and ḥifẓ al-ummah (social welfare), as weak supervision increases the risk of inefficiency and misallocation. Thus, the barrier is not the absence of Sharia legitimacy per se, but the lack of institutionalized Sharia governance capable of translating normative principles into effective operational practice.

Low Literacy on Cash Waqf and Islamic Social Finance

Another critical barrier is the persistently low level of public literacy regarding cash waqf and CWLD mechanisms. Sundana (2025) Demonstrates that waqf is still widely perceived as a static, asset-based form of worship rather than a productive socio-economic instrument. This cognitive limitation restricts participation, particularly among middle- and lower-income groups, who associate waqf with wealth exclusivity.

Contradictory views emerge in the literature: while digital platforms are often assumed to automatically increase literacy and participation, empirical evidence indicates that technology without understanding does not generate trust. Doubts regarding Sharia compliance, fund security, and transparency remain dominant concerns. From a maqāṣid perspective, low literacy inhibits the realization of ʿadl (justice) and maṣlaḥah (public benefit), as access alone does not ensure meaningful inclusion. Institutionally, this reflects weaknesses in the cognitive pillar, where shared understanding and social acceptance of CWLD remain underdeveloped. Without systematic education, certification of nazhir, and transparent reporting, digital CWLD risks reinforcing skepticism rather than alleviating it.

Human Capital Constraints and Nazhir Professionalism

The findings further reveal that limitations in Nazhir's professionalism constitute a structural bottleneck in CWLD implementation. Most Nazhir operate using conventional management approaches and lack competencies in investment governance, digital finance, and Sharia risk management. Haisyah (2024) Notes that uneven training and certification undermine public confidence and constrain scalability. From a governance framework, Nazhir functions as a trustee whose credibility directly affects institutional trust. Weak human capital undermines accountability mechanisms and contradicts the maqāṣid objective of *amanah* (trustworthiness). While some argue that institutional oversight can compensate for limited individual capacity, empirical evidence suggests that governance effectiveness depends on professional synergy between Nazhir and Islamic financial institutions.

Technological and Digital Infrastructure Limitations

Despite the potential of digitalization, CWLD implementation is constrained by inadequate digital infrastructure and interoperability. Platforms such as Berkah Wakaf remain partially integrated, lacking real-time reporting, standardized data architecture, and national dashboards. Pujiyono et al. (2025) Find that only a minority of LKS-PWU utilize application-based management systems, limiting transparency and supervisory effectiveness.

From a digital finance transformation perspective, this indicates a failure to move beyond front-end digitalization toward governance-oriented digital systems. While some scholars argue that incremental digital adoption is sufficient, comparative evidence from other jurisdictions shows that without integrated supervisory systems, digitalization does not substantially improve accountability or trust.

Incentive Misalignment and the Absence of Viable Business Models

Islamic banks face a persistent incentive dilemma in CWLD implementation. As commercial entities, they prioritize products with predictable margins and regulatory clarity. Wahyudi et al. (2024) Argue that CWLD is perceived as socially valuable but commercially unattractive due to the absence of fiscal incentives, tax benefits, or regulatory recognition of waqf assets as quasi-equity. From an Islamic economic perspective, this reflects a misalignment between social objectives and market incentives. Without policy instruments that internalize social returns, CWLD remains peripheral to banks' strategic portfolios. This condition limits the realization of maqāṣid principles related to sustainable development and equitable wealth distribution.

Weak Inter-Institutional Synergy and Standardization

Finally, the lack of standardized coordination among BWI, OJK, the Ministry of Finance, DSN-MUI, and Islamic banks exacerbates policy fragmentation. The absence of unified protocols for reporting, supervision, and data sharing results in redundancy and inefficiency. Institutionally, this weak coordination undermines collective governance capacity and prevents CWLD from achieving scale. In synthesis, the barriers to CWLD implementation in Indonesia are systemic and institutional, rather than purely technical or financial. Regulatory fragmentation, low literacy, limited Nazhir professionalism, weak digital governance, incentive misalignment for Islamic banks, and insufficient inter-agency coordination collectively hinder CWLD's development. From a maqāṣid al-sharīʿah perspective, these barriers obstruct the realization of sustainable social benefit (maṣlaḥah mustadāmah).

Therefore, overcoming these constraints requires an integrated reform agenda encompassing regulatory harmonization, governance-oriented digitalization, professionalization of nazhir, and incentive-compatible policies for Islamic banks. Without such institutional realignment, CWLD risks remaining a normative innovation rather than a transformative pillar of Islamic social finance.

Prospects of Cash Waqf Linked Deposit (CWLD) in Strengthening Islamic Social Finance

CWLD within the Framework of Maqāṣid al-Sharīʿah and Productive Waqf Transformation

From the perspective of Islamic economic theory, CWLD represents a structural shift from consumptive waqf toward productive waqf, aligning with the higher objectives of Maqāṣid al-Sharīʿah, particularly ḥifẓ al-māl (protection and growth of wealth) and taḥqīq al-'adl al-ijtimā'ī (realization of social justice). Unlike traditional waqf models that prioritize immediate charitable consumption, CWLD preserves the waqf principle while channeling returns into sustainable social programs. This mechanism strengthens intergenerational equity, a key normative goal in Islamic economics.

However, contrasting views in the literature highlight a tension between commercial prudence and social objectives. While Hasbullah Hilmi (2024) Emphasizing CWLD's role as a bridge between philanthropy and Islamic investment, critics argue that excessive reliance on banking instruments may risk subordinating social objectives to commercial logic. This tension underscores the importance of embedding CWLD within a clear Sharia governance framework to ensure that financial intermediation remains subordinate to Maqāṣid-oriented outcomes rather than profit maximization alone.

CWLD, Blended Finance, and Institutional Effectiveness

The prospect of CWLD as a diversified Islamic social finance instrument can be analytically situated within blended finance theory, which integrates social and financial returns. CWLD enables waqf funds to support education, healthcare, Sharia-compliant MSMEs, and social infrastructure while maintaining capital sustainability. Asy'arie and Djalaludin (2023) Posit that such diversification enhances the social return on investment (SROI) of waqf.

Nevertheless, empirical evidence suggests that the effectiveness of this model is highly contingent on institutional capacity and regulatory clarity. From an institutional theory perspective, CWLD's success depends not only on normative legitimacy (Sharia compliance) but also on regulatory and cognitive legitimacy. In Indonesia, the absence of standardized CWLD operational guidelines limits scalability and creates coordination costs among BWI, Islamic banks, and financial regulators. This finding challenges optimistic assumptions in the literature that product innovation alone is sufficient to expand Islamic social finance.

CWLD within the National Islamic Financial Governance Ecosystem

CWLD's strategic potential increases significantly when analyzed as part of a multi-layered Islamic financial governance system rather than as a standalone product. Integration with the ZISWAF ecosystem, national digital waqf platforms, and Islamic financial inclusion programs reflects an institutional convergence model in which social finance instruments mutually reinforce one another. Wahyudi et al. (2024) Argue that fiscal incentives and policy alignment are decisive in motivating Islamic banks to engage actively in CWLD schemes.

However, regulatory effectiveness remains uneven. While Indonesia has made progress in developing Islamic social finance infrastructure, fragmented authority and overlapping mandates weaken policy coherence. From a governance perspective, CWLD requires a meta-regulatory framework that synchronizes Sharia rulings, financial supervision, and public accountability mechanisms. Without this, CWLD risks remaining symbolic rather than transformative within the national Islamic financial architecture.

Digital Transformation and the Globalization of CWLD

Digital finance transformation models further expand the prospects of CWLD, particularly through blockchain-based transparency, smart contracts, and cross-border fund management. These technologies address long-standing trust deficits in waqf management by enabling real-time reporting and immutable transaction records. The potential globalization of CWLD through partnerships with institutions such as IsDB, MyWakaf Malaysia, and Wakaf.sg aligns with network governance theory, where transnational collaboration enhances scale, credibility, and impact.

Yet, the literature presents divergent views regarding technological readiness. While proponents highlight efficiency and transparency gains, skeptics caution against digital exclusion and regulatory arbitrage in cross-border waqf transactions. These concerns suggest that technological innovation must be accompanied by harmonized standards and supervisory cooperation to prevent governance gaps.

Synthesis and Implications

Overall, the prospects of CWLD extend beyond product innovation toward systemic transformation of Islamic social finance. CWLD holds strong theoretical legitimacy within Maqāṣid al-Sharīʿah, practical relevance within blended finance frameworks, and strategic value within institutional and digital governance models. However, its realization depends on regulatory effectiveness, institutional synergy, and technological governance. Rather than positioning CWLD merely as an auxiliary banking product, this study argues that CWLD should be institutionalized as a core policy instrument within Indonesia's Islamic economic development strategy. By embedding CWLD within coherent regulatory frameworks, strengthening Sharia governance, and leveraging digital transformation responsibly, CWLD can function as a sustainable, inclusive, and globally scalable mechanism for Islamic social finance.

CONCLUSION

This study contributes to the Islamic finance literature by conceptualizing Cash Waqf Linked Deposit (CWLD) as a hybrid instrument that systematically integrates Islamic commercial finance and Islamic social finance within a digital transformation framework. Unlike prior studies that examine cash waqf or Sharia deposits in isolation, this research advances a unified analytical perspective that positions CWLD as a governance-dependent and technology-enabled mechanism for sustainable social financing. The findings reinforce the relevance of Maqāṣid al-Sharīʿah, particularly the principles of ḥifẓ al-māl (protection of wealth), taḥqīq al-maṣlaḥah (public welfare), and inclusivity as well as institutional theory, by demonstrating that CWLD effectiveness is contingent upon regulatory coherence, institutional alignment, and professional fund management rather than product design alone.

From a policy perspective, the results suggest several implications. For regulators, there is an urgent need to establish a harmonized and technical regulatory framework that explicitly governs CWLD operations, including contract structures, fund guarantees, reporting standards, and digital governance. Regulatory coordination among BWI, OJK, DSN-MUI, and the Ministry of Religious Affairs is essential to reduce institutional fragmentation and enhance legal certainty. For Islamic banks, CWLD should be repositioned not merely as a philanthropic add-on but as a strategic social finance product, supported by incentive schemes, regulatory sandboxes, and recognition of waqf funds as quasi-equity to improve commercial viability. For Nazhir institutions, professionalization through certification, digital capacity building, and standardized governance practices is critical to strengthening public trust and ensuring accountability in CWLD fund management.

This study also highlights digitalization as a structural catalyst rather than a complementary tool. The integration of mobile banking, e-waqf platforms, QRIS, and blockchain-based smart contracts can significantly enhance transparency, traceability, and public participation in CWLD schemes. However, without adaptive regulation and Sharia digital literacy, technological adoption alone will not yield optimal outcomes. Several limitations should be acknowledged. This study is based on a qualitative library research approach and does not incorporate empirical field data or quantitative performance indicators of existing CWLD implementations. Consequently, the findings are primarily conceptual and institutional in nature. Future research is encouraged to employ empirical methods, such as case studies, surveys, or econometric analysis, to assess the impact of CWLD on social welfare outcomes, banking performance, and waqif behavior. Further studies may also explore cross-country comparative models, digital governance frameworks, and blockchain-based CWLD pilots to enrich policy and theoretical development.

Overall, this research concludes that CWLD holds strong potential to become a core pillar of inclusive and sustainable Islamic social finance. With integrated regulation, institutional synergy, and digitally enabled governance, CWLD can transcend its current experimental status and contribute meaningfully to community-based economic development at both national and global levels.

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