

EMPOWERING MSMEs THROUGH THE INTEGRATION OF CASH WAQF: CASE STUDY OF MSME CENTRE TEGALWARU

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ABSTRACT – Micro, small, and medium enterprises (MSMEs) play a significant role in economic development. However, there are various challenges that hinder the growth of MSMEs, such as limited access to financing. Furthermore, the widespread use of predatory lenders, such as Bank Emok, worsen the financial conditions of the community. Various initiatives have emerged to utilize cash waqf to empower MSMEs, though most remain at the conceptual model stage. This study investigates empirical evidence from a real-world application of cash waqf models to support MSMEs in Indonesia. Using a qualitative approach with expert interviews and SWOT analysis, this paper examined the case of the MSME Centre Tegalwaru. Findings reveal that the centre has successfully leveraged cash waqf to provide MSMEs with additional financing, human capital development, and business enablement. However, the centre also faced challenges in fundraising, high financing risk, and limited human resources. The proposed Community Venture Waqf Model is expected to open new sources of funding from tourists and corporations, mitigate risk through reserve fund or takaful, and promote collaboration with various stakeholders. Although limited to the Tegalwaru context, this research offers valuable insight for practitioners, regulators, and academicians interested in adapting similar waqf model to foster MSME's growth and economic development in other regions.

Keywords: Cash Waqf, MSME, Economic Empowerment, Community Venture Waqf Model

ABSTRAK – Pemberdayaan UMKM Melalui Integrasi Wakaf Tunai: Studi Kasus Pusat UMKM Tegalwaru. Usaha mikro, kecil, dan menengah (UMKM) memiliki peran signifikan terhadap pertumbuhan ekonomi. Namun, terdapat berbagai tantangan yang menghambat UMKM berkembang, seperti akses pembiayaan yang terbatas. Selain itu, keberadaan pinjaman predator seperti Bank Emok memperburuk kondisi keuangan masyarakat. Berbagai inisiatif telah muncul untuk menggunakan wakaf tunai dalam pemberdayaan UMKM, tetapi penerapannya masih berupa konsep. Studi ini meneliti cara wakaf tunai bisa diterapkan secara nyata untuk mendukung pertumbuhan UMKM di Indonesia. Kami mengambil studi kasus Sentra UMKM Tegalwaru dengan pendekatan kualitatif melalui wawancara dengan pakar dan analisis SWOT. Hasil penelitian menunjukkan bahwa sentra tersebut telah berhasil memanfaatkan wakaf tunai untuk memberikan pendanaan, pengembangan sumber daya manusia, dan pemberdayaan bisnis bagi UMKM. Namun, sentra tetap menghadapi tantangan dalam penggalangan dana, risiko pembiayaan yang tinggi, dan terbatasnya tenaga kerja yang terampil. Untuk mengatasi ini, studi ini mengusulkan Model Wakaf Ventura Komunitas untuk membuka sumber pendanaan baru dari wisatawan dan perusahaan, mengurangi risiko melalui dana cadangan atau takaful, serta mendorong kerjasama dengan berbagai pihak. Meskipun terbatas pada konteks Tegalwaru, penelitian ini bermanfaat bagi praktisi, regulator, dan akademisi yang ingin mengadaptasi model wakaf serupa untuk pemberdayaan UMKM dan pembangunan ekonomi secara lebih luas.

Kata Kunci: Wakaf Tunai, UMKM, Pemberdayaan Ekonomi, Model Wakaf Ventura Komunitas



INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy. Indonesia has the largest number of MSMEs in Southeast Asia (Asian Development Bank, 2023). These enterprises dominate key economic development indicators, such as the numbers of business units, labor absorption rates, and Gross Domestic Product (GDP) contributions (Indonesian Ministry of National Development Planning, 2019). In 2019, micro-entrepreneurs contributed 37.4% to the GDP, nearly matching the 39.5% contribution of large corporations. Meanwhile, medium enterprises added 13.6% and small businesses 9.5% (Databoks, 2023). MSMEs have the potential to significantly reshape Indonesia's economy. Converting 2.8% of 62 million micro-businesses into small-scale enterprises, the country could boost its GDP by Rp2,700 trillion and create jobs for 10 million people (Indonesian Ministry of National Development Planning, 2019).

However, accelerating the growth of MSMEs in Indonesia remains challenging due to several factors, such as limited access to funding, a lack of skilled human resources, and limited ability to utilize technology (Anatan, 2023). To address these issues, numerous initiatives have emerged to support MSME's growth, including recent innovations that leverage productive endowments (waqf). The government issued cash waqf-linked sukuk (CWLS) which raised Rp24 billion in 2021 (Aldeen, et al., 2020). The proceeds are distributed to five designated Islamic banks, which, together with social organizations, channel the funds into social and economic empowerment programs (Maesarach, et al., 2022). One of the appointed bank is PT Bank Muamalat Indonesia Tbk, which collaborates with Baitulmaal Muamalat to establish an MSME Centre in Tegalwaru, Bogor.

This study examines the waqf model implemented at the MSME Centre Tegalwaru due to its unique demographic of 2,422 entrepreneurs in the village (Fadhillah, 2022). Assuming all of these are microentrepreneurs, empowering them to grow into small-scale enterprises could contribute Rp3,700 billion to GDP and create 13,900 jobs. However, due to limited funds available, the waqf program can only support 2 percent (55) of MSMEs in Tegalwaru. Furthermore, the common method used to get financing in the area is through illegal loan provider such as Bank Emok. The bank provides easy and quick process with high interest rates of up to 25%, which can lead to financial distress (Sunarti, et al., 2023). Therefore, there is an urgent need to provide



alternative financing to protect the community from such financial burdens. Various studies have illustrated waqf models to finance micro-entrepreneurs, including the Waqf-Based Social Micro Venture Fund (Hamber & Haneef, 2017); the Integrated Cash Waqf Micro Enterprises Investment (Thaker, et al., 2016); and the Cash Waqf Micro-Enterprise Investment model (Alamoudi & Othman, 2021). However, the suggested model is limited to a conceptual model. There is a lack of well-developed model based on empirical evidence from a real-world practice. This study adds to the existing literatures by identifying the waqf model of the MSME Centre Tegalwaru through expert interviews and SWOT analysis. The result is a proposed model, the Community Venture Waqf model, which is expected to generate new sources of funding, enabling more MSMEs to grow and contribute to the economy.

The structure of this paper includes a literature review in the second section. The third section outlines the methodology employed. The subsequent section presents the results and discussion, followed by the conclusions and recommendations in the final section.

LITERATURE REVIEW

Overview of Waqf and Cash Waqf

The term “waqf” originates from the Arabic word “waqfa”, meaning to stop or immobilize (Listiana, et al., 2018). Even though waqf is not explicitly mentioned in the Qur’an, it is a charitable act recommended in Ali-Imran (92): “You will never achieve righteousness until you donate some of what you cherish. And whatever you give is certainly well known to Allah” and a hadith narrated by Abu Hurairah (RA), that the Prophet (PBUH) said, “When a man dies, his acts come to an end, except three things: recurring charity, or knowledge (by which people benefit), or pious offspring who pray for him.” The Prophet himself catered the needs of his community through waqf, by building Quba’ mosque and Majid Nabawi, donating his land in Khaybar to shelter newly converted Muslims, and allocating his seven gardens in Madinah to feed the people (Mohsin, et al., 2016).

There are four elements in waqf: the donor (waqif), the waqf manager (nadzir), the beneficiaries (mawquf ‘alaih), and the waqf property (mawquf) (Aldeen, et al., 2020). Waqf is characterized by three essential restrictions: irrevocability, perpetuity, and inalienability, which means that it is immune



from disposal, sale, or inheritance, ensuring continual benefits for the present community and future generations (Mohsin, et al., 2016).

The introduction of cash waqf allows a broader range of individuals to participate as donors. However, the legitimacy of cash waqf has been a subject of debate among Shariah scholars. In Indonesia, cash waqf is deemed permissible under a fatwa issued by the Indonesian Ulema Council, on the condition that it is used for Shariah-compliant purposes and the principal value must be preserved to ensure perpetuity (Majelis Ulama Indonesia, 2002). This fatwa was reinforced by Law No. 41/2004 concerning Waqf and Government Regulation No. 42/2006, which recognized money as a movable waqf assets eligible for donation. By 2019, the Indonesian Waqf Board had registered 224 nazir (waqf managers). Additionally, 17 out of 21 licensed Islamic banks were actively collecting and managing cash waqf funds (Utomo, et al., 2020). Figure 1 illustrates the regulatory framework governing waqf in Indonesia. Cash waqf has created positive impact to the community, supporting the construction of a retina centre, providing capital assistance and training for small farmers, and contribute to educational, health, and religious programs (Yumna, et al., 2024).

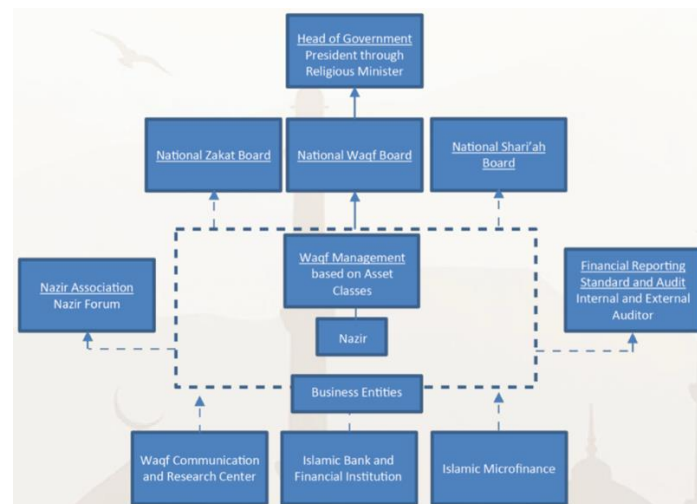


Figure 1. The Regulatory Framework for Waqf in Indonesia
(Source: Badan Wakaf Indonesia & Bank Indonesia, 2018)

Profile of MSMEs in Tegalwaru

The MSMEs in Tegalwaru are among the beneficiaries of the CWLS proceeds. The village has 2,422 entrepreneurs, with 80.5% are men and 19.5% women. Most of the entrepreneurs manage family businesses passed



down through generations (Fadhillah, 2022). Understanding the profile of Tegalwaru enterprises is crucial to support their development.

A survey reveals that the largest segment of MSMEs in the village has over 10 years of experience (40.6%), less than 5 years (31.3%), and 6 to 10 years (28.1%). The majority of businesses are self-funded (81.4%), while 12.5% use alternative financing methods, and 6.1% receive financial support from parents or relatives. Due to limited capital, 46.9% of businesses operate from home, with 37.5% running their enterprises nearby. This choice of profession has impacted the educational level of the community, with most individuals being elementary school graduates (Saleh, et al., 2022). Tegalwaru village hosts registered MSMEs from diverse business categories, including food and beverages, fashion, agriculture, and crafts (Fadhillah, 2022). These MSMEs have successfully penetrated markets beyond the district, with 34.5% selling within the Bogor province, 25% within sub-district, 25% outside sub-district, and 12.5% reaching a nation-wide market. A small percentage of 3% have succeeded in exporting to international markets (Saleh, et al., 2022). MSMEs in Tegalwaru are primarily home-based experienced entrepreneurs from various industries. Despite limited capital and low education levels, they were able to expand beyond the local market. Cash waqf can further support the MSMEs to optimize their business, enabling them to transition from waqf beneficiaries to donors, and in turn, help other beneficiaries.

Previous Literatures on Cash Waqf

Previous studies have explored cash waqf models to benefit entrepreneurs, such as refugee microenterprises (Kachkar, et al., 2016; Kachkar, 2017), agricultural businesses (Pitchay, et al., 2018; Azizan, et al., 2022), farmers and breeders (Moh'd, et al., 2017; Azganin, et al., 2021; Al-Daihani, et al., 2023). However, these studies are limited to conceptual models. Other studies have strengthened the model with evidences from forum group discussions and expert interviews (Majid & Sukmana, 2023; Sukmana, et al., 2024). The Integrated Cash Waqf Micro Enterprises Investment model is the most comprehensive model, with continued study adding interviews (Thaker, 2018) and facilitate human capital development of small entrepreneurs (Thaker, et al., 2021). The Cash Waqf Micro-Enterprise Investment model employs various financing modes, including profit-sharing partnerships (Mudharabah and Musharakah), interest-free loans (Qard Hasan), and cost-plus financing



with a pre-determined markup (Murabahah) (Alamoudi & Othman, 2021). Meanwhile, the Waqf-Based Social Micro Venture Fund added non-financial support such as business consultancy (Hamber & Haneef, 2017). Risk management of SMEs financing with waqf was explored by the Cash Waqf-Based Credit Guarantee model, proposing a Shariah-compliant credit guarantee scheme (Al Fares, et al., 2022). The development of cash waqf models for MSMEs has expanded to various countries, such as Singapore (Hasan, 2011) the State of Libya (Othman & Lawhaishy, 2023), Indonesia (Fauziah, 2021), and Malaysia (Thaker, et al., 2016).

These studies supported the use of cash waqf to provide entrepreneurs with financial and non-financial assistance. Most of the research predominantly used secondary data and conceptual approach. Although some studies took a step further by applying FGD and interviews, few have taken an existing waqf project to identify its challenges and provide suitable solution. This study completes the gap by employing a comprehensive method of literature reviews, expert interviews, and SWOT analysis. Instead of analyzing failed cases such as Hasan (2011), this study examine successful case for adoption by other regions and proposed an improved model to overcome its challenges.

METHODOLOGY

This study employed a qualitative case study approach, ideal for analyzing contemporary phenomena in real-life contexts (Yin, 1984). Secondary data were sourced from journals, books, reports, and official documents, while primary data were gathered through in-depth interviews with experts.

The first step was examining the current waqf scheme at MSME Centre Tegalwaru, verified through an interview with the Head of Program (E4). To evaluate and improve the scheme, expert interviews were conducted with academicians, regulators, and practitioners in Table 1, selected through purposive sampling. This method allowed the pre-selection of participants that had the relevant expertise to the research topic. A sample size of four participants was chosen in line with the American Anthropological Association guidelines. The small sample was considered sufficient to provide in-depth insights and avoid repetitions in collected data (Attar, et al., 2024). The results were analyzed using SWOT analysis, illustrated in a TOWS matrix to leverage its strengths, seize opportunities, and overcome weaknesses and threats (Helms & Nixon, 2010). A new cash waqf model was proposed.



Table 1. Profile of Experts

No.	Code	Institution/Profession	Rationale
1.	E1	Deputy Director at the Department of Islamic Economics and Finance, Central Bank of Indonesia	Influence the regulatory framework and policy direction of Islamic social finance
2.	E2	Member of the National Waqf Board	Oversee nazir and regulate waqf policies
3.	E3	Professor of Islamic Economics, Faculty of Economics and Business, Airlangga University	Bridging the gap between theoretical framework and practical applications
4.	E4	Head of Program at the MSME Centre Tegalwaru	Field knowledge of the waqf scheme

(Source: Author’s own)

RESULT AND DISCUSSION

MSME Centre Tegalwaru: Current Model

Figure 2 illustrates the current waqf model of the MSME Centre Tegalwaru.

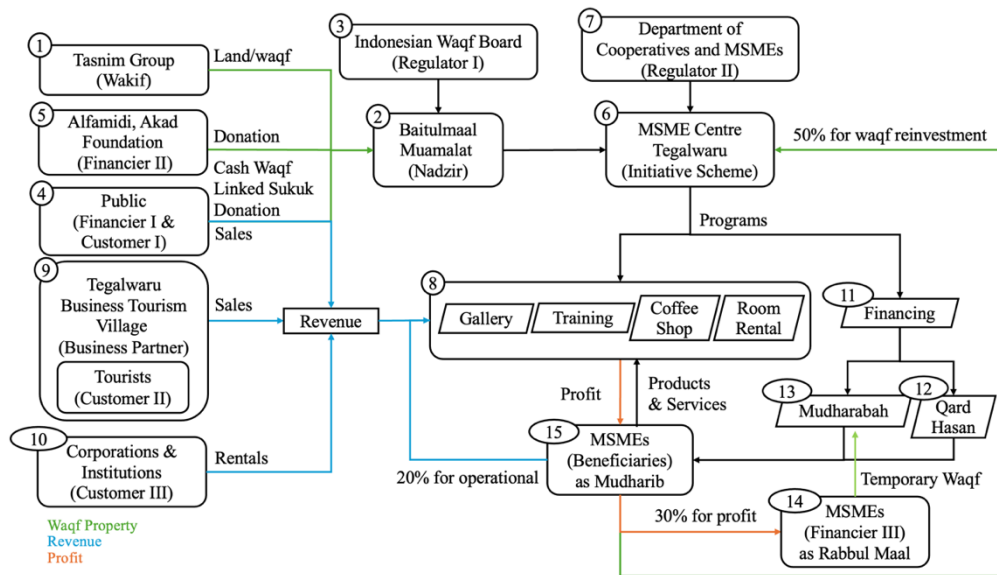


Figure 2. MSME Centre Tegalwaru Waqf Model

(Source: Author’s own)

1. **Tasnim Group**, as the wakif, donated land as waqf property.
2. **Baitulmaal Muamalat (BMM)** was appointed as the nadzir.



3. BMM is regulated by the **Indonesian Waqf Board (BWI)**.
4. **Public** donations were collected to build a building on the waqf land. The public also invested in the Cash Waqf Linked Sukuk (CWLS).
5. **Companies** (Alfamidi and Akad Foundation) donated to BMM.
6. **MSME Centre Tegalwaru** (the “centre”) was established.
7. The centre is regulated by **Department of Cooperatives and MSMEs**.
8. The centre has five **key programs** to generate revenue: a marketing gallery, training programs, a coffee shop, and meeting rooms and halls available for rental. Local MSMEs provide products and services through these programs and earn profit from the sales.
9. **Tegalwaru Business Tourism Village** provided schools, universities, corporations, and government entities with educational tourism. This program encourage **tourists** to purchase local products as souvenirs.
10. **Corporations and Institutions** rented rooms and hall to arrange events.
11. The centre provides **financing** program for MSMEs with two schemes.
12. The first scheme is through **Qard Hasan**. Company donations and CWLS proceeds were lent to MSMEs and they must return it within 6 months to 1 year. At the end of the program, the fund was given as hibah (gift).
13. The second scheme is through **Mudharabah**, a partnership agreement facilitated by the centre between MSMEs providing the capital (rabbul maal) and MSMEs managing the fund (mudharib). The capital contribution ratio between MSMEs and the centre is 90:10. The profit allocation is 50% for waqf reinvestment, 20% for operational costs, and 30% for profit distribution.
14. **MSMEs, as rabbul maal**, deposited savings (temporary waqf), which they can withdraw at the end of the period.
15. The ultimate beneficiaries of this waqf scheme are **MSMEs**.

SWOT Analysis of MSME Center Tegalwaru

Table 2 presents evaluation and suggestions from experts.

Table 2. Expert Interview Analysis

Theme	Statements of Experts	Supporting Studies
Impact to MSMEs	“(the centre’s) income from 2021 to 2024 kept increasing. which means MSMEs also gain more (income).” (E4)	(Fadhillah, 2022)



Table 2. Expert Interview Analysis (continued)

Theme	Statements of Experts	Supporting Studies
	<p>“We have created business registration number (NIB) for 50 MSMEs, halal certification to 10 MSMEs, registered copyright for 2 MSMEs.” (E4)</p> <p>“The centre became a priority for MSMEs to sell product, we are now known even outside the village.” (E4)</p> <p>“Instill local’s habit to save money. Before, we needed 10 months to get Rp5 million. Now we raised Rp5 million in just one month. Instill local’s habit to donate.” (E4)</p>	
	<p>“MSMEs have high risk because of their small capacity and the absence of collateral.” (E3)</p> <p>“The risk is big, especially in the current economic conditions. Bank’s NPF (non-performing financing) is quite (high), especially BPRS (Shariah Rural Bank) is at two digits now, it is quite serious.” (E2)</p>	(Mubarok, et al., 2024; Otoritas Jasa Keuangan, 2024; Otoritas Jasa Keuangan, 2024; Badan Wakaf Indonesia, 2020)
Risk management	<p>“Finance those with small risks and good record. Check their character, faith, and trustworthiness.” (E3)</p> <p>“It is required to have insurance because it is waqf; the (principal) value cannot decrease. So, in financing microbusinesses, microinsurance plays a role.” (E2)</p> <p>“Pay the (insurance) premium from the productive waqf’s profit, that might be more feasible and not burdensome for MSMEs.” (E3)</p>	
	<p>“Collection for cash waqf is challenging because public’s awareness and interest in cash waqf is very low.” (E1)</p> <p>“Social institutions such as Baznas and BWI must be more active in approaching and showcasing achievements so that people are more confident.” (E1)</p> <p>“Remind tourists that their purchase of MSME products will be partly used as waqf. Also, direct tourists to visit the mawquf ‘alaih. Make their contribution visible.” (E3)</p> <p>“It felt uncomfortable to ask for donation (to tourist)” (E4)</p>	
Public awareness		(Mukhid, 2024; Susanti, et al., 2023; Amalia & Ali, 2023)



Table 2. Expert Interview Analysis (continued)

Theme	Statements of Experts	Supporting Studies
Human resources	“Do not have to add permanent employee. Search for angel investor or venture capital. They have a team that will truly make the MSME centre extraordinary.” (E3)	(Ascarya, 2024; Susanti, et al., 2023; Thaker, et al., 2021)
	“Lots of unsuccessful (waqf) program happen due to insufficient and incompetent human resources.” (E2)	
Collaboration with external institutions	“Currently, we are involved in the sub-district and district communities.” (E4)	
	“Collaborate with, for example, the local tourism department to make (the centre) a priority destination in the region.” (E3)	(Presiden Republik Indonesia, 2023; Sulistyowati, et al., 2022)
	“Collaborate with the Merdeka Belajar campus to help market the products. Students get the opportunity to apply (their knowledge) in real cases. Make it into research for the university.” (E3)	
	“Non-bank is also encouraged to be involved in Islamic social finance. CSR social fund.” (E1)	
Waqf governance	“Unlike Malaysia which has ecosystem for Shariah staff, Indonesia does not have one.” (E3)	(Utomo & Ismal, 2024; Asri, et al., 2020)
	“So far, there are only two (waqf) investment: shariah deposit and sukuk. Most common model is not directly from the waqf but proceeds of the waqf investment.” (E2)	
Digitalization	“We have not been able to fully grasp digitalization for marketing through online channels.” (E4)	(Badan Wakaf Indonesia, 2023; Sulistyowati, et al., 2022)
	“Satu Wakaf Platform to increase fund collection.” (E1)	
	“Threat from cyber (attack) or buzzer.” (E4)	
Model replication	“We need to focus on how to replicate this in other places. Hold a seminar and invite MSME associations to get them inspired and establish something like this. Gather BMT associations and the local government.” (E3)	(Ascarya, 2024)
	“I recommend for each province to have this model so that waqf will be better known in society.” (E4)	

(Source: Author's own)



Table 3 presents identified internal and external factors along with strategies.

Table 3. TOWS Matrix

EFE	IFE	Strengths	Weaknesses
		Stable income growth	High financing risk
		Top-of-mind brand among the local	Small capacity
		High level of trust from MSMEs	Lack of human resources
		High engagement with local communities	Low utilization of technology
			Low engagement with tourist
Opportunities		S-O Strategy	W-O Strategy
		MSME associations Collaborate with tourism government or travel agency	Create reserve fund or use microinsurance with the profit
		Merdeka Belajar university program Conduct sharing session about the centre’s model to communities	Encourage tourist to invest in CWLS or donation
		Microinsurance for MSME Increase brand awareness through Satu Wakaf digital platform	Showcase portfolio in the centre’s gallery
		Satu Wakaf digital platform	
		Several tourism spots nearby Approach CSR fund from nearby or visiting corporations	Collaborate with business incubators and students
Threats		S-T Strategy	W-T Strategy
		Low level of public awareness Input waqf education in training and tourism agenda	Strict screening and monitoring of invested MSMEs
		Economic downturn Reporting to BMM’s Shariah Committee if needed	IT security development
		Cyberattack and buzzer	
		No Shariah internal control	

(Source: Author’s own)

Proposed Waqf Model for MSME Center Tegalwaru

Figure 3 illustrates the proposed waqf model recommendation based on the strategies from SWOT analysis.



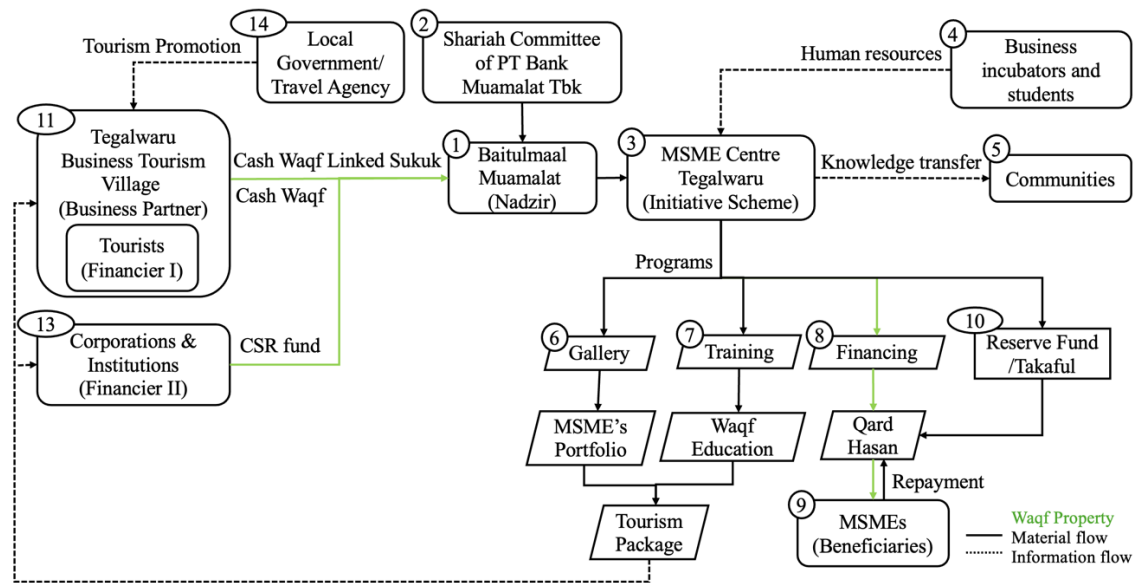


Figure 3. The Community Venture Waqf Model

(Source: Author's own)

1. **Baitulmaal Muamalat (BMM)** is the nadzir managing the waqf.
2. **Shariah Committee** ensures waqf activities comply to Shariah principles.
3. **MSME Centre Tegalwaru (“the centre”)** manages the waqf initiative.
4. The centre collaborates with **business incubators** and internship **students** to manage and monitor MSMEs, including integrating digital technology.
5. The centre held sharing sessions to help other **communities** replicate the waqf model in their regions.
6. The centre’s **gallery** showcases MSME’s portfolios where tourists can read about waqf and its impact to MSMEs. It also provide QR code links with instructions to invest in CWLS and donate cash waqf.
7. The centre’s **training** facility raises awareness about waqf among participants and tourists as tourism package.
8. Cash waqf donations from tourists **finance** MSMEs through qard hasan.
9. **MSMEs** must repay the qard hasan within 6 months to 1 year.
10. The centre allocate part of the waqf profit as a **reserve fund** to cover bad debt, ensuring the waqf principal remains intact. Alternatively, **takaful** (Islamic insurance) is used for protection.
11. **Tourists** can invest in CWLS or donate cash waqf through Satu Wakaf.
12. **Corporations and institutions** can allocate their CSR funds at the centre.
13. **Local government and travel agency** promote the centre as a tourist destination.



Previously, tourists and visiting corporations were not engaged in the waqf fund; they only purchase products and services from the centre. The Community Venture Waqf Model elevates their role from customers to financiers. The key is to approach them with success story rather than appealing to pity, presenting the waqf program as innovative and foster a positive emotional connection with the stakeholders. Furthermore, the centre's proximity to IPB University opens opportunities to collaborate with students and business incubators through the Kampus Merdeka program to assist MSMEs with business assistance and digitalization for the centre, including IT security in the future. Currently, the centre lacks a backup fund to cover potential defaults, they mitigate the risk through strict selection processes. It is therefore advisable to establish a reserve fund from the waqf's profit or to consider Islamic insurance (takaful) for security. In the absence of Shariah officers, the Shariah Committee must ensure the compliance of waqf activities. Additionally, to strengthen the centre's brand, they can collaborate with local government and tourism agency, and involve communities to replicate the waqf model in other regions.

CONCLUSIONS

This study reveals the current waqf model implemented at the MSME Centre Tegalwaru, highlighting its use of waqf land, cash waqf-linked sukuk, and donation to create a productive waqf scheme. While this model provides financial and non-financial support for MSMEs, it faces challenges such as limited funding, high financing risk, low digitalization, and lack of public awareness. The proposed Community Venture Waqf Model addresses these issues by leveraging tourism and corporate funds, creating a reserve fund, and open collaboration with various parties. This model increases the centre's waqf fund, enabling them to provide alternative financing to more MSMEs and helping them avoid predatory lenders like Bank Emok. Although this research is limited to Tegalwaru context, it offers valuable insights to practitioners, regulators, and academics to consider waqf models as a viable strategy to empower MSMEs and contribute to economic growth. Future research should include quantitative analysis and assess the willingness of stakeholders to adopt this model through questionnaire and focus group discussions, further strengthening the model's validation. Further exploration on the adoption of the waqf model in other regions is also recommended.



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