

# Transformation of Waqf Asset Development Financing in Malaysia Through Diversified Direct Financing Methods

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## Abstract

In recent years, the revitalization of waqf institutions has become an agenda within the global Muslim community, including in Malaysia. Waqf is seen to strengthen the economy during the current pandemic phase. The diversification of financing methods for waqf asset development has become a rapidly implemented transformation, capturing the attention and focus of trustees in pursuing the best financing approaches. Among the potential financing methods is direct financing. The question is, how is this direct financing method implemented in Malaysia? In line with this, this study's objective is to identify the types of direct financing methods in waqf land development. Secondly, to analyze the implementation of this direct financing method in waqf asset development in Malaysia. Data were obtained through semi-structured interviews with waqf officials and practitioners and through secondary data such as writings, journals, articles, and websites of the studied organizations. Content analysis was employed for the analysis. Ultimately, direct financing methods in waqf asset development are gaining momentum today, involving cash waqf methods that encompass various transformations. The transformation in implementing this method has aided in fundraising for waqf asset development, particularly about waqf land, thereby ensuring its productive development and safeguarding the sustainability of waqf asset benefits in Malaysia, specifically.

**Keywords:** Potential, Financing Methods, Waqf Asset Development, Direct Financing

## Introduction

Islam is a complete way of life, encompassing both beliefs and daily living. Every practice can be considered an act of worship when executed in the right manner. Developing waqf assets is a responsibility of waqf trustees (mutawallis) that must be fulfilled to ensure the sustained

benefits of the waqf properties. The selection of financing methods for waqf asset development is also essential in aligning the development with Islamic principles and objectives. This is because waqf plays a crucial role and has the potential to become a source of strength for the socio-economic well-being of the Muslim community. One of the roles associated with waqf assets is their capacity to develop the Muslim community and the nation itself. The institution of waqf is among the unique features of Islam and a testament to its compassion in safeguarding and fostering cooperation and solidarity among members of society (Nawi, et al., 2017).

In Malaysia, the management of waqf assets is defined as an aspect of wealth management specified in the respective state enactments under Schedule Nine, List II, State List (Article 74(1)(2), Federal Constitution). Through these provisions, all registered waqf lands are administered by the State Islamic Religious Councils (MAIN), encompassing movable and immovable properties (Rani et al., 2014). The appointment of MAIN as the sole trustee of waqf assets is aimed at ensuring the proper and efficient management of waqf, generating substantial returns, and benefiting the designated beneficiaries or welfare purposes, whether predetermined or not, by the waqif. To ensure the effective and productive development of waqf assets in Malaysia, the choice of financing methods must be carefully examined by trustees, ensuring that the development is both productive and impactful. Thus, this paper will explore a financing method for waqf asset development that has been implemented in Malaysia, specifically focusing on the direct financing method.

### **Literature Reviews**

Discussions on direct financing methods have covered various aspects in recent literature. The role of direct financing methods, particularly cash waqf, has been examined by (Latiff et al., 2006). According to him, cash waqf has played a significant role in various countries since the 2nd Hijri century, and he asserts that cash and monetary waqf became dominant during the Ottoman Empire around the 15th and 16th centuries. Research by Alias et al (2023) has also highlighted the potential role of cash waqf in the present context. The implementation of cash waqf has been embraced by society due to various factors. The people see the government was able to prosper the economy for them while the Islamization process is becoming more and more vigorous due to the assistance from the cash waqf fund allocated for this activity. This led to an increase in the number of Muslims, making Islam the dominant religion in the region. In conclusion, the practice of waqf which is based on welfare and free services is not only considered to have an impact on community support but also can give a bad impression if it is not well managed by the government. According to Johari et al (2014) These factors include the encouragement of waqf practices in Islam, understanding the concept of cash waqf, trust in waqf institutions for proper management, efficient administration, and environmental factors.

Studies related to specific waqf types have also been conducted. Similarly, research by Hussin & Rashid (2017) explored the implementation of "wakaf kaki" to realize the dreams of orphans pursuing higher education. Wakaf kaki also the inherent features and good track of waqf in the prominent universities in the world are seen as a possible solution to funding public universities in Malaysia. Hence, the Ministry of Higher Education has highlighted waqf as one of the ten shifts in Malaysian Education Blueprint 2015-2025 (Higher Education). Another study by Mahamood et. al (2007) discussed "wakaf Irsyad," another form of direct

financing. Furthermore, Don (2019) provided insights into various waqf types in Malaysia, such as wakaf khairi, wakaf zurriy, wakaf Irsad, wakaf musytarak, and cash waqf.

### **Research Methodology**

This research adopts a qualitative-descriptive methodology, employing content analysis as the analytical approach. Data were collected through semi-structured interviews with waqf officials and practitioners, identified with codes P001-P010. These interviews provided detailed information about the implementation of direct financing methods for waqf asset development. Secondary data sources were also utilized, including writings, journals, articles, and websites of relevant organizations. Content analysis was performed using the Atlas.ti version 8 software.

### **Research Findings**

The regulatory authorities regulate and oversee cash waqf activities in Malaysia, including the Securities Commission Malaysia (SC) and the Department of Waqf, Zakat, and Hajj under the Ministry of Religious Affairs. These authorities ensure that cash waqf activities comply with Sharia principles and legal requirements. It is related in cash waqf to Regulation and Oversight. In waqf institutions, various waqf institutions in Malaysia facilitate and manage cash waqf. These institutions may include religious bodies, charitable organizations, and financial institutions authorized to handle waqf funds. Cash waqf funds in Malaysia are typically invested in Sharia-compliant financial instruments, aiming to generate returns that can be used for charitable purposes. The investment activities are guided by Islamic finance principles to ensure that the earnings are halal (permissible). Awareness and Education are most important in generating efforts are made in Malaysia to raise awareness about cash waqf and its benefits. Educational programs and campaigns are conducted to encourage individuals to participate in this form of charitable giving and to understand how their contributions can positively impact society. The research findings address two main objectives: identifying types of direct financing methods for waqf land development and analyzing the implementation of these methods in waqf asset development in Malaysia. Based on the research findings, the transformation of direct financing methods for waqf asset development encompasses two dominant approaches in Malaysia. The implementation of these methods is widespread among MAIN across Malaysia.

### **Types of Direct Financing Methods**

Direct financing methods for waqf asset development involve obtaining funds directly from the public and using these funds to develop waqf assets. Several direct financing methods have been identified and implemented by MAIN in Malaysia, including:

#### **Cash Waqf**

The method of financing the development of waqf assets, such as cash waqf, undoubtedly holds great potential for advancing the economy of the Muslim community in funding social and cultural activities, particularly in the education sector. This is because waqf, which was once predominantly associated with perpetual endowments in the form of immovable assets, has now evolved to incorporate the concept of cash waqf and other contemporary approaches. Cash Waqf in Malaysia refers to the Islamic endowment of money or cash assets for charitable purposes, and it plays a significant role in the country's Islamic finance and philanthropy sector. Cash waqf can be understood as a form of endowment created using

monetary funds, and the resulting benefits are utilized for charitable purposes to seek the pleasure of Allah SWT and serve as a mechanism that encourages the public to contribute to enduring waqf through minimal cash donations. The pooled cash waqf funds are consolidated as capital to acquire and develop permanent assets such as land and buildings (Kamal & Seman, 2017). This viewpoint is consistent with the perspective of the informant who stated:

"Yes, that is indeed the approach used today. It was utilizing money as a method to establish waqf. Because nowadays, it is very difficult to find those who possess wealth as it was in the past. Therefore, we employ the mechanism of cash waqf to provide an opportunity for all segments of society to engage in the act of waqf. This cash waqf mechanism can be implemented across all strata of society, whether they are rich or poor."

Furthermore, in another section, he also emphasized the need to continue the practice of cash waqf. He stated it as follows:

"Cash waqf is easier and more convenient to implement compared to non-perishable waqf like land waqf. Anyone who has money, even a small amount, can contribute through this approach, unlike non-perishable waqf which makes it difficult to diversify its benefits. Additionally, there are conveniences provided for those who wish to engage in cash waqf, such as scheduled salary deductions, online credit transfers, and Internet banking."

The informant's perspective aligns with the findings of studies conducted by (Mahamood et al., 2007; Othman, 2005). Furthermore, the ease of engaging in waqf today is customer-friendly, quick, and efficient, as mentioned by (Sabit et al., 2005). Both justifications play a significant role, indicating that the cash waqf method is a contemporary financing approach for developing waqf lands."

### **Wakaf Kaki dan Wakaf Irsyad**

This practice is known as "kaki waqf" and can be referred to as "parcel waqf" or "floor waqf." This waqf instrument is a method in the management of waqf financing that can be highlighted as a source of educational waqf. According to Rani (2015), the concept involves the waqf trustee or trustee purchasing the entire property, then dividing the land into specific parcels based on size and selling it to the public at a certain price. Finally, the purchased lands are required to be re-waqf to the trustee. This method of financial resources based on "kaki waqf" can certainly ease the burden on Islamic higher education institutions in the long term compared to using financial resources obtained through loans from financial institutions such as banks for infrastructure development (Ismail et al., 2015).

An informant interviewed also stated that the trend of waqf through the "kaki waqf" method is gaining more attention from the community. Waqf is no longer seen as a burden, and people from all walks of life can contribute to waqf as the value of a single "kaki waqf" is not burdensome. This demonstrates the effectiveness of the "kaki waqf" method, as individuals interested in contributing to waqf do not need to allocate a high amount of capital. This approach encourages the community to participate in waqf with small contributions, yet it yields significant impacts for the waqf recipients.

"Waqf Irsyad" is defined as land endowed by the government for public welfare, such as schools, hospitals, and others. According to Mahamood et al (2007), the term "wakaf Irsyad" is derived from two Arabic words, "waqf" and "irsad," which, when combined, form "waqf al-irsad," referring to the endowment of property by the government or specific bodies or organizations. The term "wakaf Irsyad" is reflected in several state enactments. For instance, under Section 9 (2) (a) of the Enactment of Islamic Religious Endowments (Selangor) 1999 (No. 7 of 1999), Selangor interprets it as "any land endowed by any corporation, institution, organization, or other bodies according to Islamic law." Similarly, the Enactment of Endowments (State of Malacca) 2005 (No. 5 of 2005) defines it as "endowments from Baitulmal land, government land, or any corporation, institution, organization, or other bodies according to Islamic law." Furthermore, the Wakaf, Zakat, and Hajj Department's 2006 Wakaf Land Management Manual defines "wakaf Irsyad" as the dedication of any land as waqf by any state authority, federal government, or any corporation, institution, organization, or other bodies according to Islamic law.

### **Analysis of Implementation of Direct Financing Methods in Malaysia**

In Malaysia today, the approach of cash waqf has begun to be practiced by several state Islamic religious councils (Majlis Agama Islam Negeri, MAIN) and private companies. In the context of Malaysia, the National Fatwa Council's 77th Meeting for Islamic Religious Affairs held on April 10-12, 2007, in Kuala Terengganu decided that waqf in the form of cash is permissible in Islam. This is supported by the statement of Khalim & Zakaria (2014), who mentions that the renowned hadith scholar Imam Az-Zuhri issued a fatwa stating that waqf in the form of dinars and dirhams is permissible for preaching, the welfare of the ummah, and education. This fatwa reflects the recognition of non-physical assets, such as cash, as a valid form of waqf that has been accepted in Malaysia.

The implementation of cash waqf by several state Islamic religious councils, such as the Selangor Islamic Religious Council (MAIS), includes a form of cash waqf known as the "skim saham waqf" or waqf shares scheme. Under this concept, the MAIN acts as a trustee, and participants purchase waqf shares, which are then endowed. The proceeds from the sale of these shares are collected in a special fund and channeled into economic, educational, social, and general welfare programs based on the choices made by the participants. While the waqf shares scheme is a form of cash waqf, it is limited to specific projects, and the funds are not directly invested through modern investment instruments. This could be due to a lack of expertise or available funds. However, for larger companies, funding for waqf may not be an obstacle, and it simply requires the willingness of the owner to contribute to global welfare. One corporate institution that has demonstrated this willingness is Johor Corporation Berhad (JCorp). JCorp has waqf-endowed shares in three of its listed subsidiaries: Kulim (Malaysia) Bhd., KPJ Healthcare Bhd., and Johor Land Bhd., with a total net asset value of RM200 million managed by Kumpulan Waqf Annur Bhd. Dividend earnings from these shares will be reinvested, allocated to Islamic Religious Councils, and used for charitable and welfare activities for the country's Muslim community. Moreover, the increasing acceptance of cash waqf by the public is seen as a solution to address the shortage of funding for the development of neglected waqf lands scattered throughout the country. Instead of leaving these lands unused and unbeneficial, they can be liquidated, and the funds obtained can be

placed into a cash waqf fund. This approach is more beneficial for the community and the waqf donors.

The direct financing approach through "wakaf kaki" or "wakaf irsyad" is commonly adopted by educational institutions and specific organizations to acquire funds for development activities. Once the intended development is completed, the scheme is terminated. For instance, Bahari (2013) proposed using "wakaf kaki" and "wakaf irsyad" for the construction of the Islamic Development Management Center (ISDEV) complex at Universiti Sains Malaysia (USM). This approach was based on an agreement between ISDEV and the Penang State Islamic Religious Council (MAINPP), where "wakaf kaki" was implemented by distributing pamphlets to the public based on waqf per square foot. The collected contributions were then converted to the "wakaf bangunan" (building waqf) approach for ISDEV. Therefore, the broader use of "wakaf kaki" and "wakaf irsyad" should be expanded not only to religious institutions but also to commercial centers, health facilities, and recreational centers established by Islamic law and with support from the government and other Islamic agencies. Such a practice, which yields substantial profits in business, could play a significant and vital role in uplifting the socio-economic status of the Muslim community, particularly in the education sector. The management of waqf assets through these approaches would also be focused on the overall welfare of the ummah.

### **Conclusion**

In practical terms, the direct financing approach in waqf development has undergone a transformation that has positioned cash waqf as an alternative with the potential to expand among the Muslim community. The mobile nature of cash waqf has made it easier to manage and can be utilized as a tool to generate and maximize waqf to its fullest potential. However, currently, efforts are needed to promote the adoption of the cash waqf approach among the Muslim community and Islamic-owned corporate entities. Cash waqf is easier to implement compared to non-liquid assets like land waqf. Anyone, even those with limited funds, can engage in perpetual charitable acts through this approach. Unlike non-liquid assets, which are challenging to diversify in terms of benefits, the easy liquidity of cash enables it to be channeled for various charitable purposes more easily and effectively. Hopefully, this transformation will have a positive impact on the productive development of waqf assets.

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