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TRANSFORMATION OF DIRECT FINANCING METHODS IN OPTIMIZING WAQF ASSET DEVELOPMENT IN MALAYSIA

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| Article Info | ABSTRACT |
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| <p>Article history:</p> <p>Received: 22 Jan 2025 Revised: 4 Feb 2025 Accepted: 20 Feb 2025 Published: 1 April 2025</p> | <p>Waqf is a significant Islamic institution that has existed since the time of Prophet Muhammad (PBUH) and serves as a vital source of socio-economic empowerment for the Muslim community. In recent years, awareness and understanding of waqf have expanded, leading to an increase in the establishment of waqf assets in various forms. However, financing remains a critical challenge in the development of waqf properties in Malaysia, necessitating the exploration of innovative financing methods. One of the most actively implemented methods is direct financing, which enables efficient fund collection and allocation for waqf asset development. The study aims to identify the types of direct financing methods employed in waqf land development and analyze their implementation in Malaysia. Using a qualitative approach, data were collected through semi-structured interviews with waqf officers and practitioners, along with secondary sources such as academic writings, journals, articles, and institutional websites. Content analysis was applied to evaluate the collected data. The findings indicate that direct financing, particularly through cash waqf, has become a dominant method, facilitating the accumulation of funds for waqf asset development. This transformation has significantly contributed to the effective utilization of waqf land, ensuring its productivity and long-term sustainability. The study highlights the need for continuous improvements in waqf financing strategies to further enhance the role of waqf in socio-economic development. By addressing financing challenges, waqf institutions can optimize the potential of waqf assets, ultimately benefiting the Muslim community and strengthening Malaysia's waqf sector.</p> |
| <p>Keywords:</p> <p>Waqf Financing, Direct Financing Methods, Waqf Asset Development, Cash Waqf, Sustainable Waqf Management</p> <p> OPEN ACCESS</p> | |

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INTRODUCTION

The development of waqf assets has long been recognized as a critical component of socio-economic progress in Muslim societies. In Malaysia, waqf institutions play a significant role in providing public goods such as education, healthcare, and social welfare. However, the sustainability and optimization of waqf asset development remains a challenge due to financial constraints and limited funding sources (Amin, Hassan, & Shaikh, 2024). Traditional waqf financing methods, primarily reliant on voluntary donations, have proven insufficient to meet the growing demand for waqf property development. Consequently, innovative direct financing methods are emerging as potential solutions to bridge the funding gap and enhance waqf asset utilization (Mohd Thas Thaker & Allah Pitchay, 2018).

Recent studies have explored various alternative financing models to overcome the financial challenges associated with waqf asset development. The integration of crowdfunding mechanisms, such as the Crowdfunding-Waqf Model (CWM), has been proposed to attract a broader donor base (Mohd Thas Thaker & Allah Pitchay, 2018). Additionally, waqf-based *qardhul hassan* offers interest-free loans to support development initiatives (Amin et al., 2024). Financial technology (fintech) applications further enhance transparency and efficiency in waqf fund management (Zakariyah, Salaudeen, Othman, & Rosman, 2023). Other approaches, including the Corporate Waqf Model and Waqf-Linked Sukuk, provide structured financing solutions to unlock the economic potential of waqf properties (Ibrahim, Noor, Shariff, & Rusli, 2016; Ismail, Muneeza, & Mohsin, 2024). Despite these advancements, there remains a lack of comprehensive frameworks that integrate these models into a cohesive financing strategy tailored to the Malaysian context.

The primary gap in the literature lies in the absence of a unified conceptual framework that consolidates the various direct financing methods for waqf asset development. While individual studies have assessed the feasibility of specific models, there is limited research on their collective implementation and impact. This study aims to bridge this gap by proposing a conceptual framework that integrates crowdfunding, fintech, corporate waqf, and sukuk-based financing approaches to optimize waqf asset development in Malaysia. The proposed framework seeks to address key financial challenges, enhance regulatory compliance, and ensure sustainable waqf property development.

This study is significant as it provides a structured approach to waqf financing that aligns with contemporary economic and technological advancements. By integrating multiple financing mechanisms, this research contributes to the broader discourse on Islamic finance and waqf development. The findings will benefit policymakers, waqf institutions, and financial regulators by offering practical insights into the implementation of innovative financing strategies. Furthermore, this study aligns with Malaysia's broader economic agenda of leveraging waqf assets for national development while adhering to Shariah principles (Kader & Mohamad, 2019).

This paper is structured as follows: The next section presents a review of the theoretical framework underpinning waqf financing, followed by an analysis of existing direct financing models. Subsequently, the proposed conceptual framework is introduced, detailing its components and implementation strategies. The discussion section evaluates the potential impact and challenges associated with the framework. Finally, the paper concludes with policy recommendations and suggestions for future research directions.

LITERATURE REVIEW

Discussions on direct financing methods have been extensively highlighted across various aspects. The role of direct financing methods, particularly cash waqf, has been explored by Ahmad Zaki Abdul Latiff (2005), who stated that cash waqf plays a crucial role in a country and has been practiced since the 2nd century Hijrah. This view is also supported by Murat Cizakca (1998) and Siti Mashitoh Mahamood (2007), who argue that cash-based waqf and waqf funds became dominant financing methods during the Ottoman Empire in the 15th-16th centuries. A study by Ermy Azziaty Rozali, Shahrir Fahmi Mohamad, and Wan Kamal Mujani (2014) examined the role of cash waqf from a contemporary perspective, highlighting its widespread application today. The implementation of cash waqf has gained significant acceptance in society due to several factors. According to

Amirul Faiz Osman, Sheila Nu Nu Htay, and Mustafa Omar Muhammad (2012), factors influencing Muslim society, particularly in Malaysia, to contribute to cash waqf include religious encouragement, understanding of cash waqf, trust in waqf institutions for asset management, efficient administration, and environmental factors.

In contrast, a study by Siti Mashitoh Mahamood, Asmak Ab Rahman, Hasnol Zam Zam Ahmad, and Syarqawi Muhammad (2007) discussed *Irsyad waqf*, which also falls under direct financing methods. This study aligns with findings from Sakinatul Raadiyah Abdullah (2021), who investigated the direct financing methods for waqf land development implemented by selected State Islamic Religious Councils (MAIN) in Malaysia, focusing on identifying and analyzing applied approaches. Additionally, a study by Surita Hartini Mat Hassan (2021) emphasized the importance of sustainability in waqf asset development, particularly in the waqf housing sector in Malaysia. A study by Mohd Affendi Mohd Rani (2021) examined the development of waqf land by the Perak Islamic Religious and Malay Customs Council (MAIPK), emphasizing the *istibdal* (exchange) concept and its implementation steps, aligning with research by Nur Diyana Muhamed (2021), which explored the role of waqf institutions in national economic development, particularly in waqf land development in Malaysia.

These studies indicate that various direct financing methods have been applied in waqf land development in Malaysia, including cash waqf, *istibdal*, and partnerships with the private sector. Despite challenges such as limited funding and expertise, continuous efforts by MAIN and related institutions to explore and implement different financing methods have significantly contributed to the progress of waqf land development, ultimately enhancing the socio-economic development of the Muslim community in Malaysia.

METHODOLOGY

The research methodology is qualitative descriptive, utilizing content analysis as the analytical approach. Data was collected through semi-structured interviews with waqf officers and practitioners. These interviews were conducted to obtain more detailed information regarding the implementation of direct financing methods in Waqf Asset Development. Additionally, secondary data were obtained from writings, journals, articles, and websites of relevant organizations. The collected data were analyzed using content analysis.

RESEARCH FINDINGS AND DISCUSSIONS

The study findings were structured to address two main objectives: first, to identify the types of direct financing methods used in waqf land development, and second, to analyze the implementation of direct financing methods in waqf asset development in Malaysia. Based on the findings, it is evident that the transformation of direct financing methods in waqf asset development primarily consists of two dominant approaches in Malaysia. The implementation of these direct financing methods has been widely adopted by various State Islamic Religious Councils (MAIN) in Malaysia.

Types Of Direct Financing Methods

Direct financing for waqf asset development involves obtaining funds directly from the public and utilizing them for waqf asset development. Several direct financing methods have been identified and implemented by MAIN in Malaysia, including:

Cash Waqf

Cash waqf is a widely recognized financing method for waqf asset development, with significant potential to enhance the economic welfare of Muslims by funding social and cultural activities, particularly in the education sector. According to Mustapahayuddin Abdul Khalim and Noor Hani Zakaria (2012), cash waqf not only preserves the capital or endowed asset but also generates substantial returns and facilitates the establishment of more permanent waqf assets. Cash waqf refers to the endowment of funds, where the generated returns are used for charitable purposes, aiming to attain Allah's pleasure (Murat Cizakca, 1995). It serves as an effective scheme encouraging widespread public participation in waqf contributions, with minimal required amounts. The collected cash waqf funds are consolidated to purchase and develop permanent waqf properties such as land and

buildings (Kamal Amram Kamarudin, Zurina Shafii, Azzero Effendi Abdul Kadir, Mohammad Haji Alias, 2014). An informant supported this view by stating:

“Yes, this is the approach widely used today. Using money as a method to establish waqf is practical since it is difficult to find individuals with physical assets to donate, as in the past. Therefore, cash waqf mechanisms enable all levels of society, both rich and poor, to participate in waqf.”

Additionally, the informant emphasized the importance of continuing cash waqf practices:

“Cash waqf is easier and more convenient to implement compared to immovable waqf assets such as land. Anyone, even with a small amount of money, can contribute through this method. Unlike immovable waqf assets, which are challenging to diversify, cash waqf provides flexibility in its applications. Facilities such as scheduled payroll deductions, online transfers, and internet banking further facilitate cash waqf contributions.”

This perspective aligns with research conducted by Magda Ismail Abdel Mohsin (2007), Siti Mashitoh Mahamood et al. (2007), and Razali Othman (2014). Moreover, modern cash waqf mechanisms are designed to be customer-friendly, fast, and efficient, as noted by Mohammad Tahir Sabit Mohammad et al. (2005). These findings demonstrate that cash waqf is a contemporary financing method with substantial potential for waqf land development.

Land Lot Waqf (Wakaf Kaki) and *Irsyad* Waqf

Land lot waqf, also known as "wakaf kaki" or "floor waqf," is an innovative financing instrument suitable for educational waqf projects. According to Mohd Affendi Mohd Rani (2012), the concept involves a waqf trustee (*nazir*) purchasing an entire property, subdividing it into specific lots, and selling these lots to the public under the condition that they are re-endowed to the trustee. This financing model significantly reduces financial burdens on Islamic higher education institutions compared to securing loans from financial institutions such as banks for infrastructure development (Mokhtar, Mohd Isa, Muna & Hairullfazli, 2015).

An informant highlighted that land lot waqf has become increasingly popular, as it minimizes financial burdens and enables broader public participation. This method is highly effective, as it allows individuals to contribute without requiring substantial capital, thereby encouraging small-scale contributions that collectively yield significant benefits for waqf recipients. *Irsyad* Waqf, on the other hand, refers to land endowed by the government for public welfare purposes, such as schools, hospitals, and other public facilities. According to Siti Mashitoh Mahamood, Asmak Ab Rahman, Hasnol Zam Zam Ahmad, and Syarqawi Muhammad (2007), the term "*Irsyad* Waqf" is derived from the Arabic words "waqf" and "*irsad*," which, when combined, denote the endowment of assets by the government or organizations for public benefit.

This term is recognized in several state enactments. For instance, the Selangor Waqf Enactment 1999 (No. 7 of 1999), under Section 9(2)(a), defines *Irsyad* Waqf as “any land endowed by corporations, institutions, organizations, or other bodies in accordance with Shariah law.” Similarly, the Malacca Waqf Enactment 2005 (No. 5 of 2005) defines it as “waqf derived from Baitulmal land, government land, or land owned by corporations, institutions, organizations, or other entities in accordance with Shariah law.” The 2006 Waqf Land Management Manual by the Department of Waqf, Zakat, and Hajj (JAWHAR) further describes *Irsyad* Waqf as the endowment of land by state authorities, the federal government, or institutions in compliance with Shariah principles.

Analysis Of Direct Financing Implementation in Malaysia

In Malaysia, cash waqf is increasingly adopted by various state Islamic religious councils and private entities. The National Fatwa Committee for Islamic Affairs Malaysia, in its 77th meeting held from April 10-12, 2007, in Kuala Terengganu, ruled that cash waqf is permissible in Islam. This ruling aligns with the views of Mustapahayuddin Abdul Khalim and Noor Hani Zakaria (2014), who referenced Imam Az-Zuhri, a renowned Hadith scholar, who ruled that endowing assets in the form of dinars and dirhams is permissible for religious, charitable, and educational purposes. This fatwa affirms the recognition of liquid assets, such as cash, as an acceptable form of waqf in Malaysia.

The implementation of cash waqf by several MAINs, such as the Selangor Islamic Religious Council (MAIS), includes the Waqf Share Scheme, where MAIN acts as the trustee, and participants purchase waqf shares to be endowed. Funds collected from waqf share sales are pooled into a dedicated fund and allocated to economic, educational, social, and general welfare projects based on participant preferences. However, this scheme is limited to specific projects and does not involve direct investment through modern financial instruments due to a lack of expertise and limited funding. Despite these challenges, corporate institutions such as Johor Corporation Berhad (JCorp) have successfully implemented corporate waqf by endowing shares in three listed subsidiaries—Kulim (Malaysia) Bhd., KPJ Healthcare Bhd., and Johor Land Bhd.—worth RM200 million under the management of Waqaf Annur Bhd. The dividends generated are reinvested, allocated to Islamic councils, and used for charitable and welfare initiatives.

The widespread acceptance of cash waqf is also seen as a solution to the lack of financing for idle waqf land development across Malaysia. Rather than leaving waqf lands underutilized, converting them into cash waqf funds could provide greater benefits to the Muslim community. Additionally, land lot waqf and Irsyad waqf are commonly promoted by educational institutions and organizations to secure funds for development activities. Once the required development is completed, the schemes are discontinued. For instance, Zakaria Bahari (2013) proposed using land lot waqf and building waqf to construct the Islamic Development Management Research Center (ISDEV) at Universiti Sains Malaysia (USM). This initiative, in collaboration with the Penang Islamic Religious Council (MAINPP), involved public contributions through a per-square-foot waqf scheme. Expanding such initiatives beyond religious institutions to commercial, healthcare, and recreational centers based on Shariah principles could further elevate the socio-economic status of the Muslim community in Malaysia.

CONCLUSION AND RECOMMENDATION

Practically, the direct financing method in waqf asset development has undergone a transformation, positioning cash waqf as an alternative that enhances the potential of waqf among Muslims. The mobility of cash waqf makes it easier to manage and serves as a tool to generate and expand waqf to its maximum potential. However, efforts to popularize the cash waqf approach among society and Islamic-owned corporate entities need to be intensified. Cash waqf is easier to implement compared to immovable waqf assets such as land waqf. Anyone, regardless of the amount of money they possess, can contribute to charitable activities through this method. Unlike immovable waqf assets, which have limited flexibility in their benefits, the liquidity of cash waqf allows it to be channeled efficiently into various charitable causes. Hopefully, this transformation will have a positive impact on the development of waqf assets, making them more productive.

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