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# Application and Development of *Waqf-Sukuk* in Malaysia

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## Abstract

The post-COVID-19 world has had a huge economic impact, demanding more public spending to evoke a country's economic situation. Muslim countries are also no exception and some are even worse because they are in the poorer category. Alternatives need to be sought out quickly to avoid a bigger impact. In order to revitalize the economic sector, various efforts need to be made, especially using Islamic capital market platforms. Given the current popularity of *waqf-sukuk*, this article focuses on the concepts of *waqf-sukuk* that have been and can be used to reconstruct the post-COVID-19 national economy. This study uses a library study with reference to previous studies done in the form of theses, journals, books, reports, and so on. The combination of *sukuk* and *waqf* can provide a great platform for developing the country's economy.

Keywords: Sukuk, Waqf, Waqf-Sukuk.

## Introduction

The post-COVID-19 world has had a huge economic impact, demanding more public spending to restore a country's economic situation. Muslim countries are also no exception and some are even worse because they are in the poorer category. Alternatives need to be sought out quickly to avoid a bigger impact. In order to revitalize the economic sector, various efforts need to be made, especially using Islamic capital market platforms. The combination of Islamic capital markets, particularly *sukuk* and *waqf*, can provide a great platform in developing the country's economy. Given the current popularity of *waqf-sukuk*, this article focuses on the concepts of *waqf-sukuk* that have been and can be used to restore the post-COVID-19 national economy. Next, we look at the latest developments in *sukuk* waffles in Malaysia and how these concepts can be applied in the current economic situation. This study uses a library study with reference to previous studies done in the form of theses, journals, books, reports and so on.

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## Islamic Capital Market and *Waqf*

Malaysia continues its position as the leader in the Islamic capital market (ICM) including being the world's largest *sukuk* market and the leading Islamic fund center for Islamic capital fund and management. The Securities Commission of Malaysia (SC) in its newly released Annual Report 2019 reports that in 2019, ICM represents 63.57 percent of the Malaysian capital market with a market size of RM2.04 trillion as of December last year, an increase of 8.23 percent compared to 2018.

In addition, to facilitate the development of a *waqf* concept associated with the capital market, the SC also seeks to leverage on investment products such as collective investment schemes where the proceeds will be channeled to a *waqf* project or initiative. "The SC is also developing a *waqf* fund structure for referrals of fund managers interested in publishing such products, taking into account the results of detailed consultations with the industry."

### The Concept and Structure of *Waqf-Sukuk*

*Sukuk-waqf* is composed of a merger of *sukuk* based contract and *waqf*. It can be defined as a tradable certificate of equal monetary value that represents the money restricted (Al-mal al-mawquf) [17]. There is a variation of types of *sukuk*, which are based on the remaining Islamic contracts: *Murabahah*, *Ijarah*, *Mudarabah*, *Musharakah*, *Wakalah*, and *Salam*. Other hybrid and complex structure of *Sukuk* can be established depending on the development of Islamic financial engineering.

History has shown that the contribution of *waqf* in the economy is very important as a catalyst for economic growth, improving quality community life and guarantee the continuation of Islamic law. Conversely, if the *waqf* is not optimally developed, it will not deliver a great benefit to the community and its beneficiaries. Consequently, efficient and transparent management of the *waqf* is essential to the objective of the *waqf* is expected to be achieved.

*Sukuk* has the potential for large and growing capital raising generator of capital needs to develop, maintain, manufacture new investments and as a tool for referral tools in the *waqf* category cash. Based on the successful financing of capital through *sukuk*, SC Malaysia through The 2nd Capital Market Master Plan has announced a new framework known as Sustainable And Responsible Investment (SRI) *sukuk*.

The structuring of *waqf-sukuk* may not vary from the structure of investment *sukuk* in the form but in the purpose. The holder of ordinary investment *Sukuk* purposes at profit based on the rule of "*Alghunmu bil ghurm*". However, the holder of *waqf-sukuk* is not driven by any beneficial consideration as he only aims at Allah's blessing and serving the public interest. It is essential to remind that it should be feasible to combine other forms of financing in the case of a big public project since of inadequate fund or time pressure. *Al-qard al-hassan* might be one the instrument that could complete the structure of the project.

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Innovation is an important element that must exist to develop and maintenance of the *waqf* can be done continuously. Management institution and *waqf* trustees can venture into capital raising for the development of *waqf* projects using financial market tools capital. Fundraising using *sukuk* as an example can generate capital through large-scale capital markets. In general, Malaysia has advanced in using *sukuk* for financing the real estate development sector.

Malaysia has also been named the largest *sukuk* producer in the country world and *sukuk* have been used as instruments to raise capital for travel and economic sector development. *Waqf-sukuk* can be seen as a financing instrument offered by Islam to help cover public spending for the people and for the people. Indeed, these institutions have played an important role throughout the Islamic civilization and need more innovation to meet today's economic challenges.

Efforts to expand access to the capital market have been undertaken by the SC where the SC has introduced a new framework called Sustainable and Responsible Investment (SRI). This framework aims to encourage investment in SRI *Sukuk* to be used for social responsibility including the agenda of developing *waqf* assets.

Among the studies that have been conducted is to explore a sustainable and responsible investment (SRI) *sukuk* model based on *Musharakah* that could be implemented to develop *waqf* properties and assets under the SRI *sukuk* framework in Malaysia. This includes proposing and designing a potential SRI *Sukuk* model and seeking the opinion of subject-matter experts and industry practitioners on the model, its attractiveness to investors and its feasibility to implement.

To establish an SRI *Sukuk* model, the paper also studies the cases of the first SRI *Sukuk* issued in Malaysia and other *waqf*-related *sukuks* that have been structured for the development of *waqf* property/asset in the past. The study proposes the most feasible SRI *Sukuk* model that could be implemented in the Malaysian context for the development of *waqf* properties/assets, which is a *Musharakah*-based *Sukuk* model. The model will be explained based on the purpose of development, functionality, choice of Shari'ah contract, obligor and return mechanism.

Magda et al. (2016) studied cases of *waqf* development around the world including 25 cases from Malaysia. The modes of financing used in Malaysia are joint venture, *Musharakah* (leasing), donations, internal funds, *wakalah* (agency), *musharakah* (partnership), *waqf* share, corporate *waqf*, state and federal funds. For that time, SRI *Sukuk* was under construction. One of the closest *sukuk* models was issued for the development of *waqf* was in Singapore, also known as the *Bencoolen Waqf* project. It is the first fundraising project to renew a *waqf* property in Singapore through the issuance of *Sukuk Musharakah* by the Islamic Religious Council of Singapore (MUIS). On the other hand, *Sukuk Intifa* 'was issued for the development of *Zam Zam* Tower on a *waqf* land in Saudi Arabia.

For the time being in Indonesia, Ismal et al. (2015) discovered the potential issuance of sovereign *sukuk* linked to *waqf* properties/assets for the development of massive local *waqf* that are underdeveloped or as an underlying asset of financing in a *sukuk* originations. The *waqf* linked *sukuk* issuance is proposed for real economic sector development, just like a project-based *sukuk*. Depending on the investors' preference, the *sukuk* can be fine-tuned to serve together commercial and social purposes.

The problem of *waqf* development today is largely due to lack funds to finance its development and maintenance. This is proven by a federal government initiative that allocates RM256.4 million in the Ninth Malaysia Plan (9MP) and RM109.445 million in the Plan Malaysia Tenth (RM10) to realize 17 *waqf* projects.

Although provisions have been made, the amount is still not sufficient given the actual projected cost of developing the *waqf* asset at the whole country that has been applied by the State Islamic Religious Council (PLAY) is over RM1 billion.<sup>44</sup> To address the issue of funding, the capital market Islam offers solutions through the issuance of SRI *sukuk*. The proposed solution is in line with the goal of issuing *sukuk*, which is to fund activities economy based on Shariah principles. In this way, asset development *waqf* can be implemented more efficiently, accompanied by more investors greater and stronger capital raising.

In Malaysia, for the first time and the first of its kind in the world has succeeded structuring SRI *sukuk* in the dominance of the ringgit to meet the needs of social responsibility in education. Issuance of investment *sukuk* sustainability and accountability is another milestone in product innovation from Malaysia in the Islamic capital market. Be a passionate government to raise the level of education in Malaysia in proportion by global standards. This is to enable students to have high skills to enter university and be more competent in facing any future educational and career challenges at home or abroad. To that end, a strategic alliance through public-private partnerships together with the Ministry of Education Malaysia was created. This alliance is for enabling a fund through SRI *Sukuk* to be funded educational projects to drive the transformation of student achievement in public schools. To fund this goal, Khazanah Nasional Bhd through Special purpose company (SPV) courtesy of *Sukuk* Berhad is issuing SRI *Sukuk* to finance the planned project (Syahirah Zain & Zulkarnain Muhamad Sori (2017).

## Conclusion

History has exposed that the contribution of *waqf* in the economy is significant as a catalyst for economic growth, improving quality community life and guarantee the continuation of Islamic law. However, if the ventures are not optimally developed, it will not provide a great benefit to the community and its beneficiaries. Therefore, Efficient and transparent management of the *waqf* is vital to the objective of the *waqf* is expected to be achieved. Empirical studies are needed to provide a more comprehensive idea and knowledge of the more dynamic structure of the *waqf-sukuk*. This study provides many benefits to governments, *waqf* administrators, regulators, policymakers, foundations, companies and investors interested in exploring *sukuk-sukuk* as one of the financial instruments suitable for the growth of *waqf* in Malaysia. Thus it can

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help to realize the true *waqf* not only as a religious tool but also as an instrument for human, economic and social development.

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