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My Say: Wakaf financing in public-private partnerships for sustainable development

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Over the past few decades, Malaysia has made great strides in fostering economic growth and national development through various public-private partnership (PPP) initiatives. Since its inception, the PPP model has facilitated a collaborative framework between the government and private sector, successfully addressing infrastructure and public service needs that could not be tackled by either entity alone. However, despite the notable successes, there remain several challenges that limit the model's full potential — particularly in ensuring sustainable, long-term financial viability and equitable public benefit.

One of the recurring issues with traditional PPP frameworks is the heavy financial burden placed on government budgets in the repayment to the private sector companies. In some cases, while private companies have profited, the public sector has faced limitations in ensuring continuous funding for maintenance, community support and public welfare. Additionally, in the long term, governments are often left with large debts, while some segments of the population struggle to fully benefit from projects.

In an era of rising fiscal constraints, it is imperative to explore innovative solutions that align with Malaysia's socioeconomic and cultural landscape. One potential solution to enhance the PPP framework lies in the integration of wakaf, a long-established Islamic endowment instrument.

The concept of wakaf and its relevance to PPPs

Waqf refers to an Islamic endowment where assets are donated for religious, educational or charitable purposes, and the returns generated from these assets are used to fund social causes. This concept aligns closely with the goals of PPPs, where private sector expertise is leveraged to deliver public services or infrastructure, with the aim of benefiting the broader community.

Waqf has historically contributed to societal well-being through the provision of assets for charitable and social development, particularly in education, healthcare and infrastructure.

In Malaysia, wakaf land holds vast potential for economic and social development, yet remains largely underutilised. Of the 21,000ha of wakaf land available, some 88% has been developed, primarily for religious institutions and schools, while 12% remains dormant.

This underutilisation represents a missed opportunity for national development, particularly in urban and commercial sectors. Moreover, the government's recent launch of the PPP Master Plan 2030 (PIKAS 2030) provides a comprehensive framework for exploring new PPP models, including the development of wakaf land.

Therefore, integrating wakaf into PPP projects offers a chance to unlock the value of this land in a way that promotes both economic growth and social welfare, while maintaining the principles of Islamic finance.

How wakaf can transform PPP projects

Under the PPP model, wakaf land managed by the State Islamic Religious Council (SIRC) can be leased to private-sector entities for commercial or infrastructure development. Through a build-operate-transfer (BOT) mechanism, private companies would take on the responsibility of developing and managing the project for a set period, typically 25 to 30 years, before transferring the assets back to SIRC.

This approach allows SIRC to maintain ownership of the wakaf land while benefiting from the expertise, efficiency and capital of the private sector. The PPP model opens up opportunities for a wide range of developments on wakaf land, including affordable housing for the B40 income group, commercial spaces, healthcare hubs, educational institutions and transport infrastructure. These projects can stimulate local economies while providing long-term benefits to the community, in line with wakaf's inherent charitable nature.

Furthermore, PIKAS 2030 emphasises sustainability and economic viability, ensuring that all projects deliver long-term benefits for beneficiaries. This aligns with the core principles of wakaf, which are designed to perpetually serve public welfare.

Financing wakaf-PPP projects

To finance the development of wakaf land, the private sector can issue "sukuk wakaf", an Islamic financial instrument that allows investors to contribute capital to wakaf projects. Sukuk wakaf has gained popularity in recent years as a means of funding large-scale wakaf initiatives. However, its integration into the PPP model provides a structured framework that overcomes many challenges, particularly those related to ownership of the principal and coupon returns. In this arrangement, sukuk proceeds are used to fund the development, and investors receive coupon payments before the asset is returned to SIRC.

The benefits are manifold. SIRC receives a steady income stream from leasing the land, private companies profit from concession payments and shared earnings, and the public enjoys the social and economic improvements brought by the development. Moreover, wakaf-PPP projects ensure that SIRC does not bear the financial risk if a project encounters difficulties, as the private sector assumes full responsibility for costs and operational risks.

Risk mitigation and project management

The wakaf-PPP model also provides a level of risk mitigation that is attractive to both SIRC and the private sector. Since the wakaf land remains under the ownership of SIRC, the risk of losing valuable assets is eliminated. In addition, if the private sector develops the land commercially, SIRC can impose concession fees and profit-sharing agreements, further enhancing the financial viability of the project.

For SIRC, collaborating with central agencies such as the Public-Private Partnership Unit (UKAS) and Yayasan Waqf Malaysia (YWM) ensures that wakaf-PPP projects are carefully vetted for technical, legal and financial feasibility. This thorough due diligence process protects SIRC’s interests and guarantees the project’s long-term success.

Challenges and the way forward

Despite the promising potential of integrating wakaf into PPP models, several challenges must be addressed. First, there is a widespread lack of understanding of how wakaf can be effectively incorporated into PPP projects. This requires education and efforts to raise awareness among key stakeholders, including public- and private-sector entities.

Second, the absence of a standardised legal framework across all states complicates the implementation of wakaf-PPP projects. SIRCs in different regions often operate under varying legal guidelines, making it difficult to establish a uniform approach to project development. Establishing a national legal framework for wakaf in PPPs would streamline processes and encourage private sector participation.

Finally, attracting private sector investment in wakaf projects requires incentives such as tax exemptions or subsidies. The government can play a critical role in making wakaf-PPP projects more attractive by offering financial incentives, particularly to shariah-compliant companies.

Conclusion

As Malaysia celebrates 40 years of its PPP journey, the integration of wakaf into PPP models offers a timely and culturally aligned solution to address the challenges of sustainable development. By unlocking the potential of underutilised wakaf land, PPP projects can drive both economic growth and societal well-being, while adhering to the principles of Islamic finance. If implemented with the right governance, legal framework and public-private collaboration, wakaf-PPP projects could pave the way for a new era of inclusive, sustainable development in Malaysia.

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