

ENHANCING GOOD GOVERNANCE PRACTICES OF WAQF INSTITUTIONS: LEARNING FROM SHARIAH GOVERNANCE FRAMEWORK OF ISLAMIC FINANCIAL INSTITUTIONS

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ABSTRACT

Throughout Islamic history, *waqf* is proven as an excellent mechanism for the development of the socio-wellbeing of the Muslim community. *Waqf* assets can be used for religious and social welfare purposes like building mosques, public health, transportation and education and others. However, due to the limited regulatory framework and control over *waqf* institutions, there are many undesirable issues regarding the *waqf* management authority. If these issues continue, the *waqf* institutions will have a negative public image and undermine the objective of the Waqf. This paper highlights the issues on lack of good governance practices in *waqf* and proposes that *waqf* institutions should be learn from the established Shariah Governance Framework of Islamic Financial Institutions. The Shariah Governance Framework for Islamic Financial Institutions has been established and well-practiced in the Islamic Finance industry for nearly 10 years. Throughout these years, the industry has seen the excellent impact of good Shariah governance practices in terms of enhancing administration and management of the Islamic financial institutions and thus supporting tremendous growth of the industry. Both *waqf* and Islamic Financial Institutions share the common basis that they are Shariah compliant based institutions. As such, learning from the success of the other is highly advocated. Thus this paper will examine the governance framework for *waqf* which is based on trust, accountability, God consciousness, *hisbah*, and mutual consultation. These principles will be examined and analyse in the context of Shariah Governance Framework of Islamic Financial Institutions to see how Waqf can benefit and learn from the good practices of Islamic Financial Institutions. It is submitted that having a good governance system is a vital way to resolve the issues faced by *waqf* institutions, which leaves governance an unquestionable aspect for the success of *waqf* institutions.

Keywords: *Waqf*, good governance, Shariah Governance Framework, Islamic Financial Institutions

INTRODUCTION

Waqf is one of the most important institutions that have contributed immensely to the socio-economic and social development since the early days of Islam. Waqf is defined as “taking the corpus of any property, out of the ownership of oneself, transferring it permanently to the ownership of Allah (s.w.t.), and dedicating its usufruct to others” or “the holding of an asset

(mal) and preventing its consumption for the purpose of re-extracting its usufructs for certain righteous benefit as predetermined by the waqf founder (waqif)” (Kahf, 1998).

The definitions extrapolate that waqf is an endowment of revenue generating property for the benefit of public or specific beneficiaries. The revenues are used for the welfare of the society including social, spiritual, and economical objectives, the revenue of which is distributed among the poor and the needy, mosques, schools, graveyards, orphans, widows, old folks, and so on. The list of the beneficiaries is not comprehensive; as long as the donor determines the need of a group or individual for any Shariah compliant purpose the donation would be considered valid.

Waqf is a dedication made by one person for the benefit of others, with the intention that the dedicator be entitled to a continuous reward from Allah the Almighty. As soon as the waqf is declared by the person it will affect a transfer of his property to Allah the Almighty. Once a piece of property is given for waqf, the owner is not allowed to have any claims over it, since the property is said to belong to no one but Allah. A trustee in the form of a single person or a group of person has the responsibility to manage the property for the generation of income which is distributed as specified by the founder. This is in lieu of the characteristics of waqf that are irrevocability, perpetuity and inalienability. As observed by Ismail and Possumah (2014), both Imam Muhammad, and Imam Abu Yusuf said that “waqf signifies the extinction of the waqf’s ownership in the thing dedicated and detention of all the thing in the implied ownership of God”.

As evidenced in Islamic history, since the time of the Prophet, peace be upon him, until this day and age, the socio-wellbeing of the Muslim community can be developed by means of waqf. It is of great importance for the development of the poorer sections of society as waqf properties can be managed to generate income for distribution or even for further accumulation of assets (Mohiddin & Nooraini, 2015). In fact, waqf is an important economic and social institution for the purpose of generating economic activity whilst at the same time ensuring that benefits will accrue to specific sections of society.

Despite its importance and significant contribution to the Muslim society, waqf faced serious issues and challenges on its administration and management (Chowdhury et.al,2012; Nor Aimi et.al, 2014; Hassan R, 2018). Waqf institutions throughout most Muslim countries have not been managed well and its role having deteriorated slowly. Waqf assets have been undermined due to lack of maintenance by the trustees, improper disclosure and weak governance practices. GIFR 2015 reported that these are the issues that faced by waqf institutions in almost all of OIC countries (GIFR 2015). Specifically, the World Bank, INCEIF and ISRA (2019) quoted that lack of professional management culture among waqf administrators has always been a problem in many jurisdictions. However, the notable exception is found in Kuwait and Singapore where the waqf administrators are managed efficiently by applying modern management techniques, competent administrators and transparent report (Report on Maximising Social Impact Through Waqf Solutions, 2019).

This research aims to highlight on the importance of governance for waqf to resolve issues faced by waqf institutions. Since there is no established governance framework that is specifically applicable to waqf institutions, it is suggested that the good experience of Islamic Financial Institutions (IFIs) need to be taken into consideration in proposing a governance framework for the waqf institutions.

This paper is organized into seven sections. Whilst section one introduces the research, section two briefly describes the methodology of research adopted in this study. Section three elaborates the concept of waqf, its importance and issues revolving waqf; section four discusses waqf governance; and followed by discussion on Shariah governance framework of IFIs in

section five. Section six provides the discussion and findings of the research and section seven concludes the paper.

RESEARCH METHODOLOGY

This research is an exploratory research, which was conducted to identify and accumulate existing literature on the subject matter of *waqf*, Islamic Finance and Shariah governance. Based on this information, further analysis and conceptual proliferation was performed in proposing the Shariah governance framework or model for *waqf* institutions. Secondary data collected from articles, books, and online resources are mainly used in this paper. The library research method is applied in collecting the data.

THE CONCEPT OF *WAQF*, ITS SIGNIFICANCE AND ISSUES

There is no specific mention of the term *waqf* or its equivalent in the Qur'an but its concept can be implied from the verse which states:

“By no means shall ye attain righteousness unless ye give (freely) of that which ye love: and whatever ye give, Allah knows it well” (Al-Qur'an, An-Nisa' 3:92)

The main objective of *waqf* is '*birr*' (goodness) '*khair*' (well-being) '*ihsan* (well-wishing deed) that includes all charitable purposes that are acceptable under the Shariah that benefit society such as socio-economic, educational, environmental, scientific and the like (Laldin et al., 2008).

The objectives of *waqf* can generally be either public (*waqf am*); specific (*waqf khas*) or mixed/combination of both (*waqf mushtarak*). The public endowment (also known as *waqf khairi*) is where the prime purpose of the *waqf* is for charity and public benefit such as poor and the needy in society (Mohiddin & Nooraini, 2015). Whereas specific or private *waqf* is whereby the beneficiaries of *waqf* are dedicated or prescribed person. The beneficiaries of *waqf* can also be the family members of the founder (*waqif*), their heirs or relatives (*waqf ahli*). In the case where *waqf* is meant partly for the public and partly serving the family and descendants, it is known as *waqf mushtarak*.

There is no dispute on the amazing achievements realized by *waqf* foundations in enhancing general welfare and serving the needy, regardless whether they were public utilities *waqf*, education *waqf*, health care *waqf*, or even research *waqf*. As observed by Ihsan and Hameed (2011), following the era of Prophet Muhammad (s.a.w.), and his successors, rich kings and wealthy Muslims took on the responsibility of establishing *waqf* assets for the good of the society. Throughout the history of Islamic civilisation there were numerous records on the existence of *waqf* for the purpose of scientific research in field such as astronomy, pharmacology, physiology, and mathematics. These practices did not cease to exist in Muslim societies, despite political and social changes over time. As recent as the beginning of the 20th century witnessed the founding of *waqf* based establishments in the form of health care centres and hospitals, such as the *Waqf* Children Hospital of Istanbul (Habeeb Ahmed, 2011). In fact, the most prominent type of *waqf* to be found in Muslim history were those in the sector of hospitals and medicines.

Indeed, *waqf* is another Islamic-based method to alleviate poverty in society, serving as an effective system for poverty alleviation by improving non-income aspects such as education and health, while increasing access to tangible resources, facilities, and employment (Abul

Hasan M. Sadeq, 2002). History has witnessed that it was the norm in Muslim societies to rely upon *waqf*. The *ummah*'s social welfare was extensively uplifted as a result of *waqf*.

Despite the fact that *waqf* being an incredible tool for the society's economic and social upliftment, there are a number of issues surrounding *waqf*. The issue of accountability is one of the prime issues in *waqf* institutions. There is no proper regulatory framework and no strict legal enforcement on *waqf* that led to ineffective management, lack of disclosure and absence of good governance practices. *Waqf* institutions are not given attention by the regulatory bodies, as well as not being effectively monitored by the beneficiaries. *Waqf* assets are not managed efficiently to generate revenue, even to cover the maintenance cost of the assets. The shortage of qualified and skilful staff in *waqf* institutions contributes to inefficient management. All in all, it can be said that there is no structural administration with the absence of clear and consistent procedures, making *waqf* management ineffective.

WAQF GOVERNANCE

Waqf, being an Islamic based institution, must be governed based on the Shariah principles and objectives. The essential concepts of governance for *waqf* based institutions should always be derived from the sources of Shariah such as the concept of *amanah* (trustworthiness); *mas'uliyah* (accountability); *taqwa* (God consciousness); *hisbah* (enjoining good and preventing evil) and *shura* (mutual consultation) (Hassan, Musa & Yusuff, 2018). These are the pillars or principles underlying good governance practices of *waqf* institutions (Figure 1).

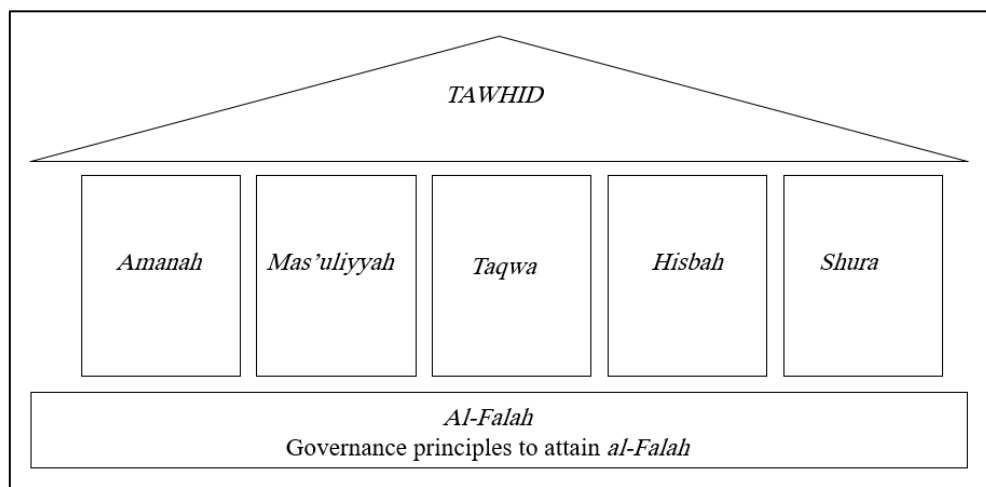


Figure 1: Good Governance Practices of Waqf Institutions
 Source: Hassan, Musa & Yusuff, 2018

Waqf is essentially created on the basis of trust (*amanah*) whereby the trustee's (*mutawalli*) task is to abide, not only the will of donors (*waqif*) by observing the terms stipulated, but also the will of Allah whereby he is obliged to manage the *waqf* according to the principles ordained by Allah. The trustee is accountable (*mas'uliyah*) to manage the *waqf* asset for the beneficiaries as prescribed by the donor (*waqif*). The *mutawalli* shall always observe good conduct, due care and conscious that his ultimate accountability towards Allah (*taqwa*) in upholding his duty as a *mutawalli*. Being a responsible and accountable trustee also means that the *mutawalli* shall promote goodness and avoid wrongdoing while administering *waqf* institution. While managing the *waqf* institution, the *mutawalli* should consult the

management team, experts and relevant authority for guidance and best decision. The practice of mutual consultation (*shura*) is an effective mechanism to manage the *waqf* efficiently.

SHARIAH GOVERNANCE FRAMEWORK OF IFIS

Shariah governance is a management and administrative system that ensures all activities and business transactions by IFIs are free from non-allowable elements such as *riba*, *gharar*, *maysir* and other similar attributes. According to IFSB Standards 10 (IFSB 2009) Shariah governance system refers to the set of institutional and organizational arrangements through which an IFIs ensures that there is effective independent oversight of Shariah compliance. Pursuant to this standard, the Central Bank of Malaysia (CBM) has issued a Guidelines on Shariah Governance Framework of Islamic Financial Institution (SGF) in 2010. The guidelines set out the requirements on the IFI's Shariah governance structures, processes and arrangements to ensure that all its operations and business activities are in accordance with Shariah. There are six (6) principles underlying the SGF that are (i) robust SG structure, (ii) oversight, accountability and responsibility, (iii) independence, (iv) competency, (v) confidentiality; and (vi) Shariah compliance and research function. According to the general requirement of Shariah governance framework, the essential key functions of key organs in Shariah governance framework are the board, Shariah committee, management and Shariah compliance and research functions (SGF 2010).

The implementation of SGF 2010 has seen the strong and orderly developments of the Islamic finance industry in Malaysia through institutionalization of Shariah governance structures, policies and processes in ensuring end to end Shariah compliance operations in IFIs. To further strengthen and alleviate Shariah governance exercise in the IFIs, the CBM has issued a new policy document on Shariah Governance in 2019. Upholding the same principles as stated in the SGF 2010, with some enhancement and refinement by emphasizing on the Shariah control functions as well as the features of transparency and disclosure, the new policy document focuses on the reinforcement of the oversight accountabilities of the key SG organs in performing their duties as regards to Shariah compliance. The role of board of directors, Shariah committee and management are intensified and the Shariah control functions (Shariah risk management, Shariah audit and Shariah review) are further structured to ensure effective management of Shariah non-compliance risks (SGPD 2019).

Good Shariah governance practices require the IFIs to establish a sound and strong Shariah governance structure that is aligned to their size, nature and complexity of their operation and business activities. The emphasis is placed on the oversight, accountability and responsibility of key functionaries in ensuring effective implementation of Shariah compliance. Proactive roles of the board, Shariah committee and senior management are expected in promoting Shariah compliance culture in the IFIs.

To safeguard the independence of the Shariah committee, IFIs shall ensure the sound Shariah decision-making process in their respective institutions. The board of directors, even though is the ultimate decision maker in the IFIs, must recognize the independence of the Shariah committee. The board, with the help of Shariah committee and the management is expected to perform thorough oversight over the effective operationalization of the Shariah governance processes (Hilmy, H. M. A. & Hassan, R., 2019).

Any person bearing responsibilities outlined in the Shariah governance shall possess the necessary qualification and competence by continuously enhance their knowledge and understanding on the Shariah as well as keep grasp on the latest developments in Islamic finance (Shamsir Mohamed, et.al., 2016). Professional ethics, judgment and consistency shall

be maintained in Shariah decision making process by the Shariah committee without undermining the decision of the central Shariah body.

For an effective and efficient Shariah compliance management, the IFIs must appoint competent Shariah officers to perform Shariah control functions comprising of Shariah review, Shariah audit and Shariah risk management. Whilst the function of Shariah review is to make assessment regularly on Shariah compliance activities and operations of the IFIs; Shariah audit provides an independent periodical assessment to evaluate the IFIs' degree of compliance in relation to their business operation (Kasim et.al, 2013; Noor Aimi et.al, 2019). The scope of Shariah audit shall cover all aspects of the IFI's business operation and activities, including audit of financial statement, compliance audit on organizational structure, people, process and information technology application system, as well as review of adequacy of the Shariah governance process. Shariah risk management, on the other hand, is to systematically identify, measure, monitor, control and mitigate any possible Shariah non-compliance events.

Transparency and disclosure are also fundamentals for good and effective Shariah governance practices. Accurate and complete report must be made to the regulatory or supervisory authorities but also accessible to the public at large. In the context of IFIs, the annual report must not only contain financial aspects of the business but must also composed of Shariah governance statement by the board of directors and Shariah committees, on the assurance of overall Shariah compliance operations of the respective IFIs (Part G, SGPD 2019). The disclosure on the state of Shariah compliant operations of waqf institutions is similarly expected by the *waqif*, beneficiaries and other stakeholders. Comprehensive, structured and systematic report not only boosts up the confident of the stakeholders but also inviting the public to participate more in *waqf*.

The implementation of a structured Shariah governance framework in the Islamic finance industry has proven to be a positive factor for the enhancement of religious assurance vis-à-vis Shariah compliance and thus improved credibility of the IFIs (M. Haridan, 2018). Consequently, the Shariah governance framework of the IFIs can be the benchmark for developing the same for *waqf* institution. Insights will be drawn from the organs of Shariah governance, namely the board of directors, management and Shariah Committee, albeit different organs that have to be identified for *waqf* management. Undeniably, disclosure of information through good reporting is also one of the fundamental principles of Shariah governance framework that must be emulated by the *waqf* related bodies in raising up the bar for *waqf* administration and management. Not only the waqf institutions earned trust of its stakeholders by practicing good Shariah governance practices, but a well-established Shariah governance framework ensures good performance of *waqf* institutions and will increase the confidence of the public to contribute more *waqf* assets in the future. This in turn will boost the *waqf* reputation and functions for the benefit of the ummah (Shafii et. al, 2014).

ANALYSIS AND FINDINGS

Good governance practices are important to ensure that *waqf* play its role significantly. Ihsan and Ayedh (2015) and Cajee (2008) have highlighted that the future development of *waqf* largely depend on good governance practice of *waqf* institution. Although the idea of governance in *waqf* is still new and its application is limited outside the realms of financial and economic institutions, the stakeholders in *waqf* organization should be looking forward to identify the suitable Shariah governance model that is consistent with the nature of *waqf* and its peculiar features (Elasrag, 2017). Governance is one of the principal constituents of good management that guarantees transparency, disclosure, accountability, limitation of liability, and making sure that *waqf* administration adheres to legitimate provisions, applicable laws and

systems, codes of conduct, and Islamic morals. Such guarantees shall contribute to maintaining the *waqf* institution, its assets, properties and beneficiaries' rights. They generate confidence in *waqf* and create a positive image of it to the whole society. Besides, they contribute to protecting *waqf* from the risks resulting from mismanagement (Ramli, Salleh, & Muhamed, 2015).

To revive the eminence of *waqf*, there needs to be a new approach and strategy for good administrative and well-managed system that is efficient and responsive to the latest management styles and information technology. There also needs to be a new dimension of development that can make *waqf* a major source of economic strength, this will require a change in society's perception of traditional *waqf* practices. Consequently, there is no compromise on the need of good Shariah governance practices.

Comparatively speaking, it is timely for religious based institutions like *waqf* to learn from the IFIs in their good practices of Shariah governance. Having established a well-structured Shariah governance framework serves the IFIs in upholding overall Shariah compliant operation and activities which are fundamental to all types of religious based institutions like the IFIs and *waqf*. In this regard, the Shariah governance framework for IFIs can be a suitable model that can be observed as a parameter for good Shariah governance practices in *waqf* institutions. As both *waqf* and IFIs are governed by the Shariah tenets, the Shariah governance framework of the IFIs is a suitable system that ensures all their activities and transactions are free from non-Shariah compliant elements.

The assessment on the governance principles of *waqf* institutions and the Shariah governance framework of IFIs show that both principles share the same fundamental values (Figure 2). This is comprehensible due to the fact that both institutions are based on the same fundamental concepts i.e. the Shariah principles.

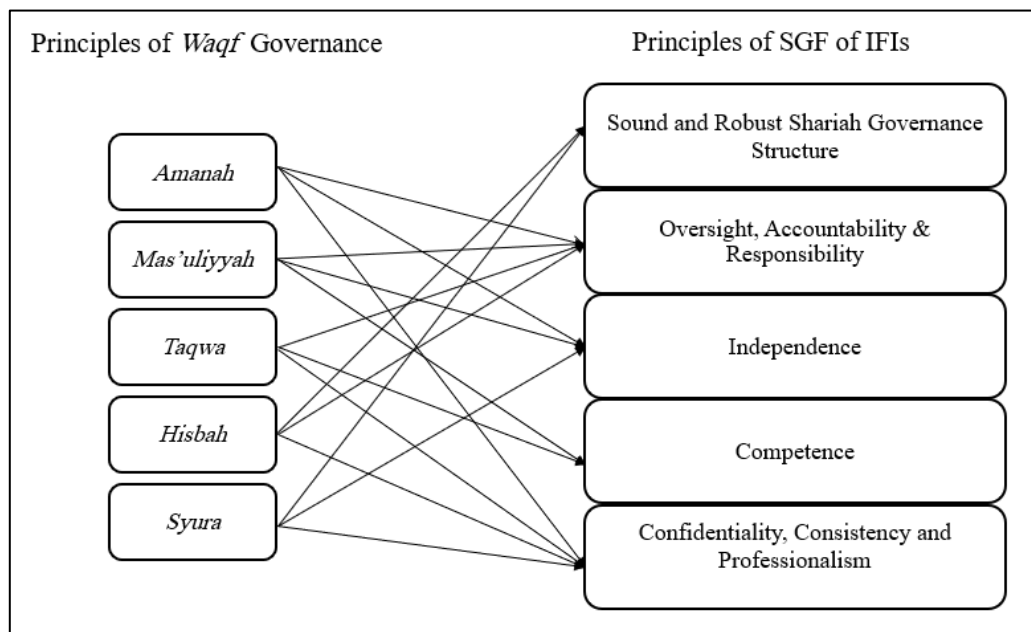


Figure 2: Aligning the Principles of *Waqf* Governance to SGF of IFIs
 Source: Authors' own

Aligning the pillars of Shariah governance framework of both *waqf* and IFIs, it is logical and explicit that the principles of *amanah*, *mas'uliyah* and *taqwa* are reflected in the principles of oversight, accountability and responsibility as enunciated by Shariah governance framework of IFIs. *Waqf* institutions must put in place the accountability and responsibility of every

internal organ that are involved in the implementation of Shariah governance framework in their organisations. The roles and functions of the key Shariah governance players, such as the board of director (or the equivalent), the *mutawalli* and the management, need to be properly identified and assigned. To ensure that all decisions made pertaining to *waqf* comply with the principles of Shariah, the appointment of independent Shariah Board is inevitable. The members of Shariah Board shall comprise of qualified Shariah scholars that are capable of giving Shariah rulings on the relevant Shariah matters. The decision of Shariah Board must be respected and implemented in the management and operation of *waqf* institutions. Even though the members of board of director and the management may comprise of Shariah experts, but having an independent Shariah Board is important to ensure that all Shariah decisions are independently done. Upholding the Shariah principles in *waqf* institutions is an unyielding task and thus it is expected that these key organs must discharge their duties in mutual respect (*shura*), god consciousness (*taqwa*) and trustworthy (*amanah*).

Mutual consultation (*shura*) is an important element that guides *waqf* administrator in their decision making. *Waqf* administrator or manager must know who and how to consult the relevant authority in making the decision. As such, a good structure that is suitable based on the respective *waqf* institutions need to be developed. The Shariah governance framework for IFIs may provide general guidance on the process and structure to be adopted whilst the respective *waqf* institutions may adopt their own internal Shariah governance framework according to their need and requirement. What is important here is that the framework must be robust and suitable to ensure utmost protection of Shariah principles and the specific objectives of *waqf*.

The main aim and objective of Shariah governance framework is to safeguard the objectives of Shariah or Shariah compliance. This objective is embraced in the concept of enjoining good and preventing evil (*amr ma'ruf wa nahi an munkar*) or known as *hisbah*. In the context of Shariah governance framework of the IFIs, this can be represented in the Shariah compliance process such as Shariah review, Shariah audit and Shariah risk management. These functions involve the examination and evaluation of the *waqf* institution's level of compliance to the Shariah, remedial rectification measures to resolve non-compliances and control mechanism to avoid recurrences of such non-compliance. Effectively, the stakeholders of the respective *waqf* institutions shall be convinced that the overall operations of *waqf* is what it is supposed to be.

Generally, for an effective Shariah governance and good management of *waqf* institutions, the similar arrangement as regards to the key personnel that is accountable to Shariah governance in both institutions should be reflective of each other. However, acknowledging the additional unique feature of *waqf*, the institutionalisation of the *mutawalli* is to be incorporated in *waqf* governance (Table 1). The *mutawalli*, being the authority to decide matters in *waqf* should hold the responsibility as the governance caretaker, together with the board of directors and also the Shariah board. These key organs must be competent professionals or scholars that are able to make good and independent decision, not only for the benefit of donor (*waqif*) and beneficiaries (*mawquf*), but also to ensure that the *waqf* is administered and managed according to the expectation of regulatory authorities and public at large.

Table 1: Shariah governance organs in IFIs and *Waqf* institutions

Functions	Shariah Governance Organs in IFIs	Additional Shariah Governance Organs in Waqf Institutions	Explanation on SG Functions (IFIs and <i>Waqf</i>)
Governance	<ul style="list-style-type: none"> • Board of Directors • Shariah Board 	Mutawalli/ Trustee	<ul style="list-style-type: none"> • Oversight functions on Shariah governance • Independent view and decisions • Competence/professionals
Risk Management and Internal Control	<ul style="list-style-type: none"> • Shariah Review • Shariah Auditor • Shariah Risk Management 		<ul style="list-style-type: none"> • Shariah Review/Shariah Audit functions • Internal assessment on Shariah compliance • Provide mitigating measures to avoid Shariah non-compliant
Compliance	Regulatory and Financial Compliance		<ul style="list-style-type: none"> • Continuous assessment on overall compliance • Report to regulatory/supervisory authority • Annual/financial report as part of compliance

Source: Authors' own

Human resource is an important factor for good governance practice. All personnel in-charged of Shariah governance framework of *waqf* institution, be it the board of director, the Shariah board, the manager and the officers performing Shariah compliance related functions must possess the necessary competency and continuously enhance their knowledge and understanding on the Shariah and *waqf* in particular. It is recommended that a set of fit and proper criteria requirement is to be adopted in the recruitment of *waqf* personnel and appointment of the board members. The fit and proper criteria may consist of qualification and disqualification requirements and terms of reference for their appointments. Consequently, this can be the basis for assessment of their performance.

CONCLUSION

Waqf is an important tool for the community's socio-well-being throughout Islamic history. *Waqf* assets have been used to provide free education, medicine, transportation and so forth. However, its functions deteriorate due to improper management of *waqf* assets, lack of accountability and adequate disclosure, ineffective management, insufficient regulatory framework, and other various issues. Consequently, this demands that the *waqf* institution to be fairly regulated and closely monitored, and its governance to be strengthened.

It is believed that introducing good Shariah governance practices will minimize these issues to certain extent. Nevertheless, there is no guidance or model for Shariah governance framework for *waqf* institutions that have been established. To establish effective governance, we must further ensure that all *waqf* governing bodies have the experience and expertise required in this asset-management role. This includes ensuring that *waqf* authorities possess the necessary understanding of the Islamic principles and laws which govern *waqf*.

This framework may include a clear specification of the roles and responsibilities of the *waqf* trustee and the *waqf* authority, as well as a code of conduct outlining the need for the

trustees to act in good faith, with prudence and financial care, and in the best interest of the donors and beneficiaries. The role of Islamic corporate governance is to promote corporate fairness, transparency, accountability and maintain good relationship between different stakeholders as well as the relationship with Allah (Ahmed, Omar, & Faosiy, 2015). The internal governance of the *waqf* authorities must not be neglected, and that there should be an adequate internal control put in place, including risk management protocols and regular audits.

In this context, this paper suggests that the Shariah governance framework for IFIs can be a good model for *waqf* since both institutions are Shariah compliant based. Whilst Islamic Finance has proven its excellence and global leadership through effective implementation of their Shariah governance framework, it is pertinent for *waqf* institutions to adopt and adapt the Shariah governance framework of IFIs without the need to reinvent the wheel.

Implementing and maintaining a robust governance framework for the management of *waqf* may seem a daunting and difficult responsibility, but it is an absolute overbearing if *waqf* authorities are to gain and strengthen stakeholders' trust and confidence, thereby ensuring the sustainability of *waqf* as a key component of Islamic social finance, and of the social economy as a whole.

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