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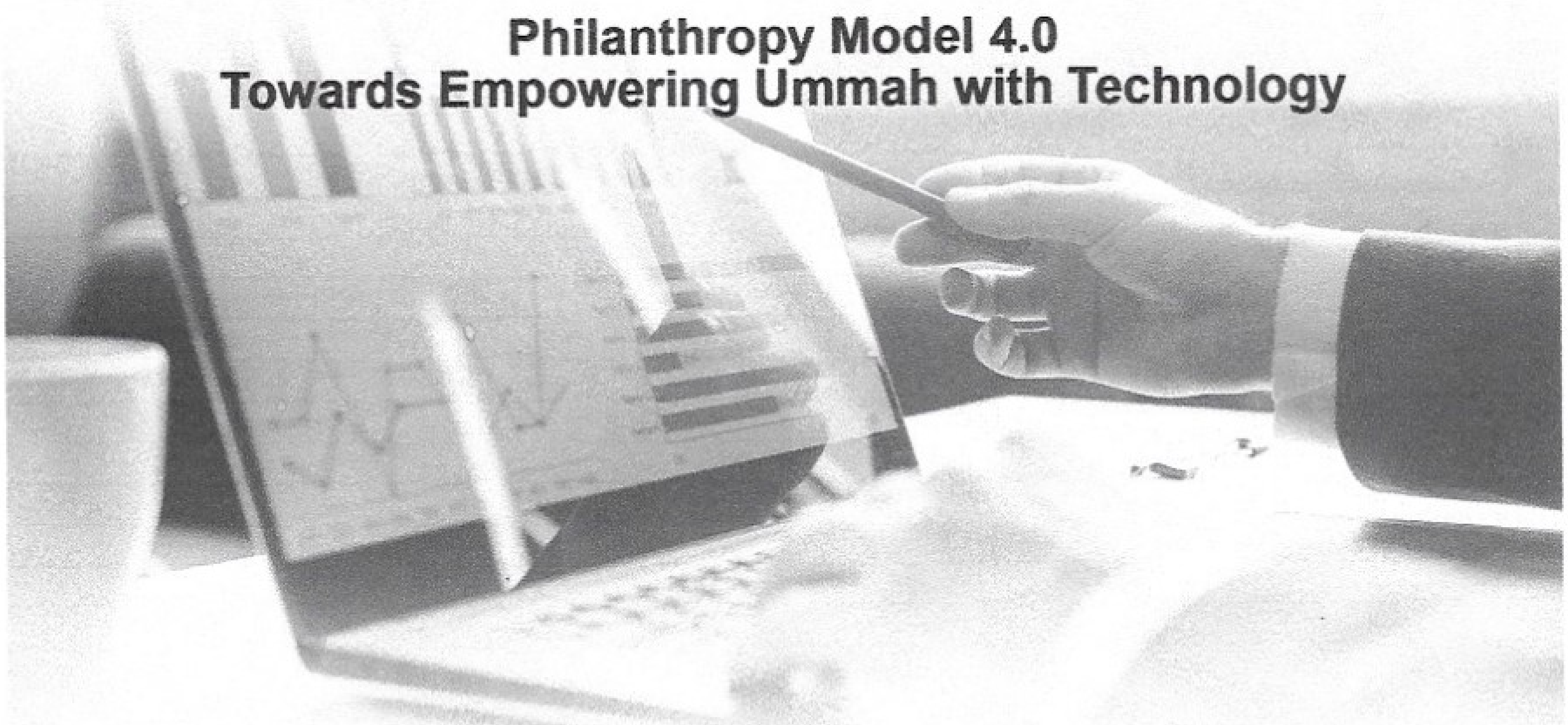

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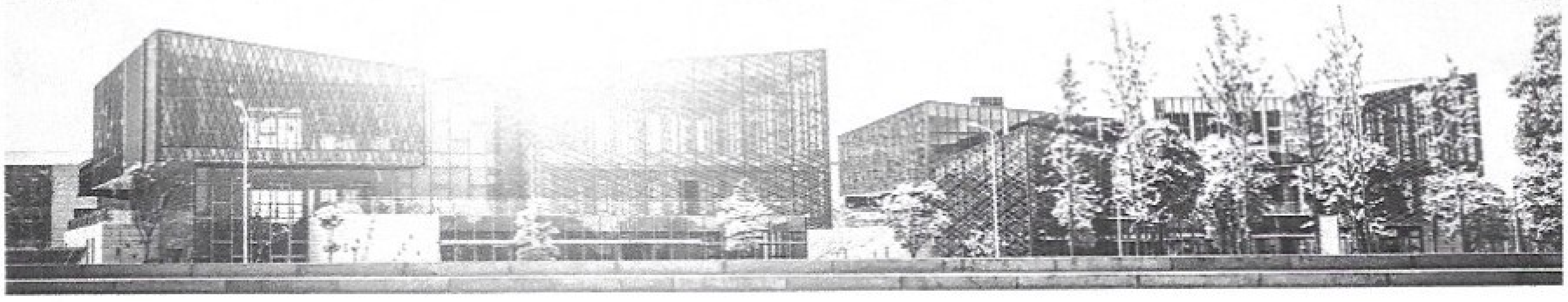

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Perpustakaan Negara Malaysia Cataloguing-in-Publication Data

4th INTERNATIONAL VIRTUAL CONFERENCE ON ZAKAT, WAQF AND ISLAMIC PHILANTHROPY 2020 (2020 : Shah Alam, Malaysia)

Transforming Islamic Philanthropy for Ummah Excellence: 4th International Virtual Conference on Zakat, Waqf And Islamic Philanthropy 2020, Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA, 17 September 2020 : ACIS, UiTM, 2020.

ISBN 978-967-2355-05-2

Edited by Mohammad Mahyuddin Khalid, Mohd Asmadi Yakob, Mohd Ashrof Zaki Yaakob, Azri Bhari and Mohd Faiz Mohamed Yusof

Published in Malaysia by:
Academy of Contemporary Islamic Studies (ACIS)
Universiti Teknologi MARA,
40450 Shah Alam, Selangor Darul Ehsan, MALAYSIA
http://acis.uitm.edu.my

CONCEPTUAL MODEL OF UNIT TRUST WAQF BASED ON FIXED UNIT TRUSTS STRUCTURE

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This paper aims to present the viability of unit trust waqf as an alternative asset class for waqf creation. The paper provides the conceptual framework of unit trust waqf based on the existing fixed unit trusts structure managed under Permodalan Nasional Berhad (PNB). This paper starts with the conceptual exploration of the literature in the area of waqf, which are sourced from authentic sources of al-Quran and al-Hadith, as well as secondary sources such as books, journal articles and online resources. The novelty of this paper lies in its attempt to highlight the importance of waqf investment strategy in ensuring the perpetuity of waqf by preserving its capital to maintain sustainable return for waqf beneficiaries. PNB's fixed unit trust structure has been identified as a viable conceptual model for unit trust waqf to pool more cash waqf from individual investors. The sustainability of the capital waqf assets in the form of unit trust is preserved through the parameters for its application as proposed toward the end of the paper.

Keywords: waqf, unit trust, Islamic finance

CONCEPTUAL MODEL OF UNIT TRUST *WAQF* MODEL BASED ON FIXED UNIT TRUSTS STRUCTURE

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Abstract: This paper aims to present the viability of unit trust waqf as an alternative asset class for waqf creation. The paper provides the conceptual framework of unit trust waqf based on the existing fixed unit trusts structure managed under PNB. This paper starts with the conceptual exploration of the literature in the area of waqf, which are sourced from authentic sources of al-Quran and al-Hadith, as well as secondary sources such as books, journal articles and online resources. The novelty of this paper lies in its attempt to highlight the importance of waqf investment strategy in ensuring the perpetuity of waqf by preserving its capital to maintain sustainable return for waqf beneficiaries. PNB's fixed unit trust structure has been identified as a viable conceptual model for unit trust waqf to pool more cash waqf from individual investors. The sustainability of the capital waqf assets in the form of unit trust is preserved through the distinctive feature of fixed price as proposed in the paper.

Keywords: waqf, unit trust, Islamic finance

INTRODUCTION

The institution of *waqf* is one of the socio-economic institutions in Islam that encourage Muslims to be creative and innovative in revising its modes and finance not only in terms of increasing its generated revenue but also in providing various goods and services needed in Muslim societies (Mohsin, 2013). Arguably, many *waqf* institutions are facing the paradox of having huge number of *waqf* properties, yet many are still left idle and unproductive, despite the majority of the properties being located in prime areas. This issue has sparked the attention amongst *waqf* managers, policy makers, governments as well as Islamic financial institutions to transform unproductive *waqf* assets into high quality and income-producing properties. The recent call for its revival, as well as the renewed public attention and awareness on *waqf*, are indeed crucial factors for the rapid advancement of the Islamic finance industry.

In Malaysia, various agencies have been instrumental in organizing and promoting various programs and research activities in order to further develop the institution of *waqf* and to harness *waqf*'s potential for the benefit of the *ummah*. Despite these commendable efforts, it has been reported that many *waqf* lands and buildings in Malaysia are not well managed or abandoned, rendering the institution of *waqf* in Malaysia to remain underdeveloped.

The prospective of *waqf* institution as a source of wealth creation is also potentially hindered by a number of other issues. One contributing factor to this problem is the vast majority of *waqf* assets in Malaysia that are made of immovable properties with low liquidity (Mohsin & Mohammad, 2011). Other than that, is the lack of funds faced by *waqf* managers or *mutawalli* (Ahmad & Muhamed, 2011; Mahamood, 2006a; 2006b; Sohaimi & Syarqawi, 2008; Sulaiman, 2012). This is because, sufficient funds, particularly in the form of highly liquid *waqf* assets are desperately needed by the *mutawallis* in order to enable them to manage the *waqf* assets toward realizing the *waqf*'s ultimate objective, that is, to serve the needs and affairs of *ummah* (Zarqa, 1994). This 'asset-rich, cash-poor' syndrome that has been suffered by many *waqf* in Malaysia is indeed so serious that, according to a report published by Yayasan *Waqaf* Malaysia (YWM), out of 13,000 hectares of *waqf* land, only 7.2% has actually been developed, while the remaining sat idle (YWM, 2016).

Therefore, the prospect of investing *waqf* assets in highly liquid financial instruments must be explored by the stakeholders; in fact, it should be given utmost priority. This is especially so since to date, the number of *waqf* investment and *shariah*-compliant products available in the capital market are still limited. Most of the times, *waqf* managers are left with no choice but to keep the *waqf* proceeds in Islamic fixed deposits, for want of better options. In fact, the time high for this option to be given full consideration, in view of the current interest and willingness shown by commercial Islamic financial institutions to be involved in the national *waqf* development agenda.

As such, this paper attempts to explore on the viability of integrating waqf with Islamic unit trust, a modern financial instrument that is not only able to be shariah-compliant, but also highly potential capable generating for competitive returns, Through this instrument, the current *waqf* asset portfolios could be diversified instead of being concentrated or frozen in non-flexible instruments and assets. Nonetheless, notwithstanding these exciting prospects offered by Islamic unit trust funds, the practice of unit trust *waqf* (alternatively termed as *waqf* of unit trust or *waqf*-unit trust) is still at the inception stage, calling for more in-depth studies to explore its practicality from the legal and *shariah* perspectives.

WAQF FOR SUSTAINABILITY AND WELL-BEING OF THE UMMAH

According to Ibn Qudamah (1998), *waqf* means "withholding the corpus of an asset (without disposing it) and distributing the return (outcome) of the asset". Under the principle of *qurbah* (piety), *waqf* is the act of endowing one's property for charitable purposes in order to get rewards from Allah s.w.t in the Hereafter (Kahf, 2003). Apart from the relationship between human being and their Creator (*habl minallah*), *waqf* also covers people's affairs among themselves (*habl min al-nas*) in the spirit of *mahabbah* (love), *ukhuwwah* (brotherhood) and *ta'awun* (cooperation) (Sulaiman, 2008).

According to Nadwi (2015), the institution of waqf primarily serves two objectives. First, in spiritual terms, waqf provides a vehicle for a perpetual reward for the donor and second, it confers numerous socio-economic benefits to the community in general, particularly to the underprivileged. Therefore, waqf, which is referred to as *sadaqah jariyah* in a hadith (Muslim, 1998) is more attractive to donors as it provides them with perpetual rewards in the afterlife as compared to endowment where the benefits are only obtained in this world. The perpetual or continuous feature of waqf is further manifested through a progressive approach in developing waqf property, in which no waqf asset should be left idle and unattended in order to ensure sustainable return to beneficiaries (Hasan & Sulaiman, 2016) as well as its survival. Likewise, Kahf (1999) asserted that the recurrence of benefits generated from waqf can be used as a mechanism to increase the standard of living of the ummah and reduce poverty and difficulties among the poor and needy.

Since its inception, waqf has contributed towards promoting the well-being and social development of nations and has been particularly flourished during the golden age of Islam. It was once recognised as one of the world's most influential third sector institutions (Sadeq, 2002; Mohd Arshad & Mohamed Haneef, 2015). Claimed by the historian Hodgson (1974) as 'a vehicle for financing Islam as a society', *waqf* serves as an important and effective tool for raising adequate capital to be channelled to fund various economic and social activities in a sustainable manner. In fact, a similar concept to *waqf* had been adopted in the Europe with the establishment of the world's famous educational endowment such as Merton College, University of Oxford (Arjomand, 1998). This success story of *waqf* has not only inspired the formation of today's modern not-for-profit organizations and non-governmental organizations (NGOs), but has also left some influence in the determination of their organizational objectives.

Waqf is argued to be able to cover wider aspects of social and economic development and different from other philanthropic and redistributive instruments such as *zakah*, *sadaqah* and *hibah* which to help the needy and the poor. The use and purpose of *waqf* cover religious activities (Noor et al., 2014; Rahman, 2009; Rifin et al., 2014; Shapiee & Santoso, 2009), provision of public infrastructures such as hospitals, universities and libraries (Cizakca, 1998; Hassan, 2007; Van Leeuwen, 1999), education (Gaudiosi, 1988, Hadi, 2009; Hashim, 1990; Ramli & Abdul Hamid, 2014; Setia, 2011; Sulaiman & Abdul Manaf, 2009), poverty alleviation (Khan, 2010; Saifuddin et al., 2014; Shahimi et al., 2013; Shirazi, 2014) and employment (Mahmood & Shafiai, 2013; Ramli & Jalil, 2014; Ahmad & Muhamed, 2011), hence meeting the society's needs at large. On the other hand, the institution of *waqf* can be used to provide a wide range of welfare services to Muslims as well as non-Muslims. In fact, the beneficiaries of *waqf* could also be non-human such as animals and the environment. As such, *waqf* could also serve the purpose of protection of animals and supports environmental programmes.

Another focus of discussion on the contemporary application of *waqf* is concerning the sustainability of *waqf* institutions. Dafterdar (2011) argued that sustainability of *waqf* is an added bonus or a complement to the profitability generated by *waqf*. This is because the surplus generated from profit-making activities can be used to sustain the provision of the social services. Similarly, in the case of *waqf*, sole reliance on cash donations; while not hedging against declination of purchasing power of money received as cash *waqf*, could increase the exposure of *waqf* institutions to the risk of closure. Mohsin et al. (2016) opined that the preservation of benefits for the intended beneficiaries can be attained through prudent and efficient investment and development of *waqf* assets. Meanwhile, Sulaiman and Zakari (2015) emphasized the importance of diversifying the sources of income for *waqf* institutions alongside the important role played by investment managers in safeguarding the value of the *waqf* investment funds over time.

In fact, diversification of *waqf* sources by venturing out into the contemporary forms of wealth like cash and shares could increase the flexibility of *waqf* and the public participation into *waqf*. For instance, this can be done though investing *waqf* proceeds in the less volatile and balanced unit trust portfolios, which underlying assets are mostly fixed income and stable asset classes such as *sukuk* and money market instruments. In light of various economic indicators, this paper further presents how *waqf* as a social finance vehicle can contribute as a complementary alternative to governments and private-sector financial institutions which cannot undertake all socially desirable projects because of the lack of funds or commercial non-viability.

Traditionally, *waqf* institution is considered similar to a non-profit trust (Acs, 2013). In regard to the administration and governance of *waqf* in contemporary times, many scholars emphasise the importance of professional management and transparent administration of *waqf* to ensure the effective outcomes of the *waqf* (Kamaruddin et al., 2018). Haneef et al. (2015) accentuate that the transparency and accountability of the funding as well as the implementing agencies are crucial in order for the *waqf* to achieve its ultimate goal of poverty reduction. In the same line of thought, Hassan and Shahid (2010) argue that professional business management would improve the institutional quality, service delivery and effective delegation of the responsibilities; thus would ensure and ease the accountability of the said management of *waqf*.

Hence, a sound corporate structure is important in ensuring that *waqf* is managed professionally and able to operate in perpetuity. Sulaiman and Abdul Manaf (2009) argue that transparency is vital not only in the operation of the management of *waqf*, but also in its reporting, as it reduces the discrepancy between the donors and the *waqf* administration. Thus, under the management of professional manager such as the fund manager, the *waqf* management would have better accountability and transparency toward adding value and promoting wealth (Ramli & Jalil, 2014).

PERMODALAN NASIONAL BERHAD (PNB) AS SUCCESSFUL UNIT TRUST MANAGER

Permodalan Nasional Berhad (PNB) was incorporated on 17 March 1978. As a government-linked investment corporation (GLIC), PNB acted as a key agent of the New Economy Policy (NEP). The NEP was state-assisted affirmative action programme introduced in Malaysia from 1971 to promote Bumiputera participation in all sectors of Malaysia's multiracial economy and society. PNB was given a three-pronged mandate to promote corporate sector share ownership amongst the Bumiputera and at the same time, increase Bumiputera participation in wealth creation and in the management of the corporate economy (White, 2018).

Based on these mandates, PNB evaluate, select and acquire a large portfolio of shares in growing companies. PNB was established to invest and retain the Bumiputeras' allotted shares to increase share ownership for indigenous peoples in the long run. Substantial shares acquired in major Malaysian corporations were transferred to a trust fund and sold to Bumiputeras by PNB subsidiary, Amanah Saham Nasional Berhad (ASNB) in the form of smaller units. This innovative investment model and organisational structure allowed PNB to ensure that these shares were retained by the Bumiputera community.

In addition to its role as an investment corporation, PNB launched multiple unit trusts through ASNB after 1981. It became by far the largest player in the Malaysian unit trust industry, commanding 64% of market share in terms of net asset value at the end of 2010 (Ahmad Sarji, 2011). In general, unit trust schemes offered by ASNB can be divided into two major categories which are fixed price and variable price funds. Under fixed price category, the most famous subscribed is Amanah Saham Bumiputera (ASB). Besides that, other five unit trust schemes are Amanah Saham Bumiputera 2 (ASB 2), Amanah Saham Bumiputera 3 – Didik (ASB 3-Didik), Amanah Saham Malaysia (ASM), Amanah Saham Malaysia 2 - Wawasan (ASM 2 Wawasan) and Amanah Saham Malaysia 3 (ASM 3). Meanwhile, for variable price categories, the most famous subscribed is Amanah Saham Nasional (ASN). Besides, there are also another seven schemes including ASN Equity 2, ASN Equity 3, ASN

Equity 5, ASN Imbang (Mixed Asset Balanced) 1, ASN Imbang (Mixed Asset Balanced) 2, ASN Sara (Mixed Asset Conservative) 1 and ASN Sara (Mixed Asset Conservative) 2.

It is worth to note that unlike other 'purely portfolio manager', PNB has invested in a corporate sector that gives two types of returns: dividends from long-held shares plus capital gains from short-term buying and selling of shares, as well as money market and other financial transactions. PNB controls large companies in a way that many traditional fund managers do not because it has been entrusted with a mandate to maintain a certain level of Bumiputera ownership. Another unique feature by PNB is also focused overwhelmingly on small investors, where normally unit trusts tend to be targeted at the high-net-worth investors, pension funds and other institutional funds. PNB however, managed to bring less wealthy investors, with initial deposits as low as RM10 and subsequent top-up investments of merely RM1, to participate in corporate equities (White, 2018). Last but not least, ASNB also provides a wide range of investment channels to facilitate investors to perform transactions, which comprise 33 ASNB branch offices and more than 2,600 agents' branches nationwide and online channels at myASNB portal and mobile app, ASNB agents' internet banking facilities namely Maybank2u, CIMB Clicks, RHB Now and Affinonline as well as the facilities of making additional investments at all Maybank ATMs. These make investment become easier and accessible to the public.

Due to these unique features, with approximate RM312 billion worth of assets under management at the end of June 2020, PNB has become one of Malaysia's biggest fund managers, covers strategic investments in Malaysia's leading corporates, global equities, private investments and real estate. Besides, with 14-unit trust funds, ASNB encompassed more that 14 million individual accounts with its unit trust funds and over RM250 billion units in circulations. At end of December 2019, PNB managed to distribute more that RM200 billion since its incorporation in 1978 (PNB, 2020).

Despite significant roles by PNB especially towards the improvement of economic conditions for Bumiputera, which are dominated by Muslims people, more attention had to be given to shariah issues. The main issue was the Shariah-compliant status on PNB funds. Since 1981, Muftis and Members of several Fatwa Council at both federal and state levels had debated on the shariah-compliant status on PNB funds.

Fatwa on the Permissibility of PNB's Unit Trust

At the federal level, the National Fatwa Council had discussed this issue three times starting from the 12th Muzakarah January 1985, 31st Muzakarah December 1992 and the latest is 80th Muzakarah February 2008. In the first two meetings, the National Fatwa Council was reluctant to give a permissible status on PNB unit trust funds. Only at the latest meeting in 2008, the National Fatwa Council resolved that PNB unit trust funds are compliant to Shariah. In a meantime, State Fatwa Councils have different opinions regarding this matter. For instance, Kedah, Sarawak, Wilayah Persekutuan, Kelantan and Terengganu agreed to give a permissible status on PNB unit trust funds. Meanwhile, Selangor, Perak and Pulau Pinang did not giving such permissible status prior to the National Fatwa Council 80th Muzakarah February 2008 (Abdul Majid, 2017).

The largest non shariah-compliant company invested by PNB is the Malayan Banking Berhad (Maybank). As the largest financial services provider and largest-listed company by market capitalization (2019: RM97.125 billion) in Malaysia, Maybank become the most strategic investment made PNB by acquiring 49% of the shareholding (PNB, 2019). Despite the non shariah-compliant status by Maybank, its subsidiary Maybank Islamic Berhad is the 5th largest Islamic bank in the world by total assets and its takaful arm, Etiqa is Malaysia's No.1 general takaful provider.

As one of the investment companies where its majority of investors are Muslims, there are lot of efforts done by PNB in order to ensure its investments are permissible. For instance, shariah-compliant investments made by PNB in 2017 consist of more than 60% of the total funds which are mostly invested in the high strategic companies including the government strategic sectors. Besides, as 2013, from 194 companies invested by PNB, 72.2% are with shariah-compliant status (Abdul Majid, 2017).

Besides, the National Fatwa Council had decided that the investment in ASB with the bonus dividend is permissible based on ijtihad and *siyasah syariah* method and ruling. In addition, PNB and ASNB have a Shariah Advisory Panel with extensive experience in matters related to Islam. Moreover, PNB and ASNB do not invest in any sector that is clearly *haram* and detrimental to society such as liquor and gambling. Furthermore, PNB and ASNB play a big role in improving the Bumiputera and Muslim socio-economic status in this country by controlling major strategic companies. Last but not least, based on the element *hifz-al-mal* (prevention of wealth) under *maqasid shariah*, strengthening Muslim economic is considered *dharuriyyah* since the strengthening of the Muslim economic position in Malaysia is still needed (White, 2018). Based on these justifications, it is understandable why PNB and ASNB unit trust funds are considered permissible.

DEFINITION AND RECENT DEVELOPMENT OF UNIT TRUST *WAQF* APPLICATION

Islamic unit trust fund (also known as Islamic mutual fund) is a type of collective investment scheme that offers the investors the opportunity to invest in a diversified portfolio of *shariah*-compliant securities, *sukuk*, money market instruments, real estates or commodities. This type of the funds is determined by the assets or constituents that have largely created the portfolio. It determines the risk of a fund and the kind of investor the fund is targeting. Fundamentally, there are three varieties of unit trust funds namely Islamic equity funds (deals in shares), *sukuk* funds (fixed income funds which is relatively more stable) and money market funds (SC, 2007). Islamic unit trust fund provides the investors with the opportunity to diversify their investments into various financial assets. It is managed by professional fund managers who invest the money that is collected in a diversified portfolio of *shariah* compliant financial instruments, depending upon the objective of the fund. Investors can earn income from the investment in Islamic unit trust fund through capital gains and/or distribution of income.

In Malaysia, the market capitalization of Islamic unit trusts has shown a significant improvement over the past several years, depicted by a tremendous growth of net asset value (NAV) of Islamic unit trust funds in the post financial crisis period from RM21 billion in 2009 to RM108.9 billion in 2016 (SC, 2016). The recent statistics provided by the Securities Commission Malaysia (SC) also show an increased number of *shariah*-compliant authorised funds from only 17 out of total 127 funds in 2000 (13%) to 239 out of total 698 funds (34%)

in 2020 alongside a three times growth in the number of management companies from 13 companies in 1992 to 39 companies in 2020. The huge size of Islamic unit trust funds in Malaysia, which is estimated RM108.9 billion, obviously poses a significant impact of creating a superstructure source *waqf* fund for social financing, if the existing mechanics can provide an avenue for unit trust investors or unit holders to endow a portion of the units or the dividend.

The concept of *waqf* for mutual fund or unit trust is not new. In 2004, Dompet-Dhuafa Batasa Syariah *waqf* fund was first introduced in Indonesia on fixed income basis where up to 80% of the fund was allocated in *sukuk* and the rest in Islamic money market (Islamic deposits). The return rate of the fund was between 11-13%, and part of the dividend had been channelled to *waqf* (Siswantoro & Dewi, 2011). Unfortunately, the fund was terminated and converted to *hajj* fund in 2006 due to lack of participation from the investors. In addition, the fund was deemed to be ambiguous, relatively small in size with very little promotion, as well as laden with some market risk issues. Ten years later, BNI Asset Management in collaboration with Dompet Dhuafa, the latter is a well-known *waqf* institution in Indonesia, established a *shariah* compliant mutual fund with a special *waqf* feature. This new fund of Reksa Dana BNI-AM Dana Dompet Dhuafa, which was actually a rebranding of the previous Batasa Syariah fund, provided an avenue to the unit holders to endow some of the dividends for *waqf* purpose. As the fund manager, BNI-AS had not only attracted more investors, but had also managed to allocate one-third of the management fees to *waqf* fund. In terms of fund allocation, about 98% was allocated in corporate *sukuk* while the rest of 2% was invested in *shariah* compliant deposits.

To spur a similar initiative of unit trust *waqf* in Malaysia, this drive can probably be initiated by Permodalan Nasional Berhad (PNB), a government-linked investment corporation. PNB is currently managing RM266 billions of funds through the *shariah* compliant unit trusts, Amanah Saham Nasional (ASN) and Amanah Saham Bumiputera (ASB), demonstrating a large potential of having the unit holders to put aside a portion of the unit or dividend for *waqf*. ASB and ASN funds which are guaranteed by the Malaysian Government have been pronounced *shariah* compliant by the National Fatwa Committee along with other State Fatwa Committees namely Wilayah Persekutuan Kuala Lumpur, Selangor, Penang, Terengganu, Kelantan dan Negeri Sembilan. *Waqf* of unit trust could be a viable model as *waqf* can be created at low inlay that will open opportunity to everybody to create *waqf*. Therefore, in this context, *waqf* can be explored as a source of funding by *waqf* institutions and fund managers, due to its potential as a perpetual pool of funds for their social programs.

The Legitimacy of Cash Waqf and Other Financial Assets Including Unit Trust

There is a consensus among the majority of Muslim jurists regarding the legitimacy of cash *waqf*. From the Hanafi school, a disciple of Abu Hanifah, Imam Zufar approved all movable properties to be dedicated as *waqf* including the *waqf* of dirham and dinnar (cash *waqf*) as the capital in business dealings based on mudharabah; the return of which can be directed to *waqf* (Ibn 'Abidin, 2003; Ibn al-Humam, 2001; al-Tarabulsi, 1902) In addition, both Imam Muhammad al-Shaybani and Abu Yusuf (Ibn Abidin, 2003) approved all types of movable property as the subject matter for *waqf*. Imam Malik bin Anas had also agreed on both immovable and movable properties as a subject matter of *waqf* even if it is cash *waqf*. Cash *waqf*, which is based on loan without interest (*salaf*) is permissible among the Maliki jurists.

With respect to the other two schools of *fiqh*, both Imams al-Shafe'i and Ibnu Hanbal had also agreed on the validity of both immovable and movable properties as a subject matter of *waqf* (Abu Zuhrah, 1959; Zuhayli, 2002).

In modern application of *waqf*, movable assets in the form of cash and other financial assets have been widely accepted by Muslim jurists. Financial assets refer to intangible properties that represent a claim on ownership of an entity or contractual rights to future economic benefits that may flow to the owner. In other words, a financial asset represents the contractual right to receive cash or other financial assets (Bouheraoua et al., 2014). Common types of financial assets include shares, *sukuk* and unit trusts. This provision enables people to contribute in establishing a *waqf* even if they do not personally own any real estate. The permissibility of making *waqf* using contemporary forms of wealth like cash, shares and unit trusts increases the flexibility of *waqf* and the public participation into *waqf*.

The permissibility of unit trust as the subject matter of *waqf* has never been specifically discussed by classical Muslim scholars. Hence, it is extremely necessary for the fatwa authorities as well as contemporary Muslim scholars to provide the interpretations on its permissibility according to the *shariah*, in order to set the direction of its future implementation. To the best of our knowledge, there is only one *shariah* resolution concerning on the permissibility of endowing the unit trusts. In 2009, the *Majma' Fiqhi* in its 19th meeting held in United Arab Emirates resolved the permissibility of *waqf* in the form of financial instruments including unit trust, shares, *sukuk*, intangible rights and benefits as follows (Internation Fiqh Academy, 2009):

> "*It is permissible to endow shares (which are Shariah-compliant), sukuk, intangible rights, benefits and unit trust, as they are all assets recognized by Shariah*" (Resolution No. 181).

For the purpose of this study, the fatwas and discussions on the permissibility of cash *waqf* and *waqf* of shares are relevant, as they are strongly related to unit trust, which in itself may constitute of shares, *sukuk*, or any of them. In conceptualizing the viable models of unit trust *waqf*, this study has also employed the concepts of cash *waqf* and *waqf* of shares.

Waqf Muaqqat and *Waqf* of Unit Trust from the Malaysian States Legislation Framework

Waqf muaqqat (temporary *waqf*) refers to the act of endowing assets for a specific period of time, which shall be returned to the original owner *(waqif)* at the specified date or maturity period. Islamic jurists seem to have differing opinions in this matter. Majority of the Islamic jurists prohibit the practice of temporary *waqf* as it does not satisfy the main condition of perpetual *waqf*, hence nullifying the fundamental nature of *waqf*.

On dissent, temporary *waqf* is allowed by Maliki school, whom opined that permanent transfer of ownership is not a condition for a valid *waqf*. Thus, endowing an asset for a specific period of time and having it returned to the original owner after the *waqf* period ends is allowed according to this school of thought (Al-Dardir, 1991). For instance, a *waqif* may specify to endow his house for a month; therefore, the ownership of the house shall be returned to him after the end of the period of time.

Temporary *waqf* is also allowed by some Shafii scholars (al-Bujayrimi, 1995) in the sense that any particular beneficiary may receive the benefit of the *waqf* temporarily; however, according to this view, the ownership of the *waqf* will never return to the *waqif*. For example, in the case of a house endowed as a *waqf*, any particular beneficiary may be replaced by another beneficiary after a period of time, and so on. Temporary *waqf*, however, is not allowed for the *waqf* of mosques and cemeteries.

Considering the potential of temporary *waqf* as permissible by the view of Malikis, many fatwa and *shariah* rulings issued by the contemporary *shariah* authorities allowing the practice of *waqf muaqqat*, among others:

i. International Islamic *Fiqh* Academy, Resolution No. 181, in its 19th meeting in 2009 (United Arab Emirates)
ii. AAOIFI *shariah* Standard no. 33, 3/1/4
iii. Selangor Fatwa Committee (Malaysia) 1/2014, 4 February 2014.

The Federal Constitution of Malaysia confers the management and administration of *waqf* to be under the State jurisdiction. Hence, all affairs relating to *waqf* affairs in Malaysia is administered by 14 different Islamic Religious Councils (SIRCs) or Majlis Agama Islam Negeri. The SIRCs act as the sole trustee for all *waqf* properties in every state and Federation of in Malaysia as evident in all state Enactments/Act. The SIRC, as the *mutawalli* (sole trustee), is responsible to preserve *waqf* properties, maximize their revenues and distribute them. As such, remarkably, temporary *waqf* or *waqf muaqqat* is legally possible to be practised within the current Malaysian legal framework.

Generally, a number of the State enactments allow for financial assets such as shares and unit trust to be endowed. One clear cut example is in section 10, Enactment *Waqf* (Perak) 2015, which illustrates the permissibility of unit trust to be subject matter of *waqf*, based on the definition of *waqf* of shares that also include "unit trusts". In addition, the provisions of *waqf muaqqat* is traceable in a number of state enactments such as section 17 of the Rules of *Waqf* Johor 1983, Section 2 of the Administration of Islamic Law (Federal Territories) Act 1993, Section 2 of Majlis Sarawak Ordinance 2001 and Enactment *Waqf* (Terengganu) 2016. Most explicitly, the recent Enactment *Waqf* of Terengganu 2016 recognizes the applicability of "*wakaf muaqqat*' which is defined by the enactment as "a *waqf* dedication for a specific period of time".

These legal provisions demonstrate that modern application of *waqf* via contemporary financial assets and contemporary mechanisms have been recognised by a number of SIRCs in Malaysia. Nevertheless, its application is yet to be tested within the current Islamic finance legal framework.

Sustainable Waqf Fund Investment Strategy

Diversification is one of the key strategies in investments, as manifested by the popular sayings, "Don't put all your eggs in one basket". This strategy is meant to ensure that investors will still getting return from certain segments should any other segments are losing its momentum with little or no return at all. According to Jim Garland, in the context of preserving the capital such as in *waqf* fund, the most important strategy is to optimize the return for the beneficiaries rather than focussing on the capital appreciation (Dimson, 2007). *Waqf* fund which is left in typical saving account is exposed to inflation risk that can be detrimental to the value of the fund in the long run (Wildermuth, 2012). As such, the best investment strategy is not merely to maintain the capital but also to consider the declining purchasing power of the cash *waqf* (Wildermuth, 2012). It is worth observing that in managing risks, only generated profits would be distributed to beneficiaries while preserving the original capital amount. Hence, portfolio rebalancing and active portfolio management are crucial to ensure the sustainability of *waqf* capital.

There are three important criteria that need to be addressed in managing *waqf* investment. First, *waqf* capital is not diminished, hence the protection against the capital should be the priority. Second, investments undertaken must be able to produce a stable and consistent income to be distributed to *waqf* beneficiaries, in order for the *waqf* to reap endless rewards from Allah (SWT). Third, all investments made for the *waqf* must be *shariah* compliant.

Meanwhile, the International Islamic *Fiqh* Academy in a 2004's resolution (International *Fiqh* Academy, 2004) spelled out some important guidelines for *waqf* investment strategies that can be summarised as follows: (i) Complying to *shariah* principles; (ii) Generating stable incomes while preserving *waqf* capital; (iii) Diversifying investment portfolio to minimize the risk of loss; (iv) Employing various hedging mechanisms to avoid declining or loss of *waqf* capital; (v) Implementing comprehensive research before investing in projects to ensure high success and great impact to economy; (vi) Employing prudent investment tool and avoiding high risk investments; (vii) The investment method should be consistent with the nature of *waqf* asset in maintaining the capital and ensuring the return to beneficiaries; (viii) The ownership of movable *waqf* properties should be preserved from loss of ownership or illegal transfer; (ix) If the movable is in cash form, it should be invested in contracts such as *mudharabah*, *musharakah*, *istisna'* and other contracts; and (x) Investment manager should be transparent in terms of reporting the operations, revenues and benefits distribution.

ISSUES IN MANAGING UNIT TRUST WAQF

Protecting waqf capital from losses

One of the main roles of *mutawalli (waqf manager)* as a trustee is to preserve the *waqf* capital from any losses either being stipulated or not by the *waqif (waqf donor)* (al-Quti, 1999). As enshrined by Shariah law, if *a mutawalli* has resulted in the loss of *waqf* assets, the losses shall be replaced by the *mutawalli*. This situation has given rise to questions, is there a mechanism to conserve *waqf* assets from any losses of capital when the *waqf* asset is invested in a business or stock market? Is the concept of capital guarantee of *waqf* capital in the form of cash invested in a business or a company's shares are permissible from Islamic view? The general rule of Islamic investment principle insists that any form of business or investment is generally exposed to risk of loss, thus, capital guaranteeing whether in business or stock investment is strictly prohibited.

While discussing the risk management aspect of a company's *waqf* of shares, Mahamood and Mohamad (2009) opined that in the event of losses, *nazir* or *mutawalli* shall replace the lost shares with a profitable company's shares through *istibdal* (substitution) to avoid continuous loss of *waqf* capital. However, if the market situation and performance remain volatile, the shares shall be replaced with permanent assets in the form of immovable property. The view was supported by Babkir (2009) that in the case of stock trading in the exchange suffers from losses due to market volatility, the shares need to be replaced with assets in the form of immovable property. This approach will ensure that the capital of *waqf* asset continues to remain in line with its objective to meet the aspiration of the *waqif* in generating sustainable benefits to the beneficiaries.

In this regard, there is pressing need to set up a specific guideline or parameter for *waqf* fund managers to address the situation particularly the issue of *waqf* shares that are affected by market's volatility (Hasan & Sulaiman, 2016). The guideline is crucial for *waqf* fund managers like WanCorp as one of the risk management tools in preserving *waqf* capital from any losses. It would be a relief for market players whom are directly involved in *waqf* shares trading to have such guidelines in place and endorsed by regulators like Securities Commission of Malaysia.

The discussion of *waqf* capital risk management is closely related to capital guaranteeing. Literally, the only way to preserve *waqf* capital in investment is by allowing *waqf* capital to be guaranteed. This has posed question of whether *waqf* capital can be guaranteed as capital guarantee will tantamount to *riba* which is vehemently prohibited in *shariah*. The Quran clearly mentions that "Allah has permitted trade and has forbidden interest." (Quran, 2:275). It's construed with the nature of business trading or investment which is susceptible to profit and loss. In *mudharabah* contract, all parties are expected to assume such as capital risk to justify the returns earned from the contract. Capital guarantee can be considered as unjustified return as it may impose burden to the managers to ensure return to the investors at all times.

In one of his sayings, the Prophet asserted that entitlement to the return on an asset relates to the risk of ownership or "*al-kharaj bi al-dhaman*". Based on this hadith, Muslim jurists developed a legal maxim *al-ghurm bi al-ghunm* or "gain is justified with risk". Both imply that the entitlement to a return is related to the liability of risk. Simply put, in Islam, if there is no risk, there will be no gain. The hadith also provides a clear stance in Islam regarding its recognition of risk for justification of earnings in any economic venture. Indirectly, it also entails that in the absence of risk in business undertakings, one may find oneself in a circumstance that might give rise to interest-based transactions.

Generally, under a *mudharabah* contract, a *mudharib* (manager) shall not guarantee the *mudharabah* capital. Nevertheless, for investors, capital guarantee is one of the important aspects they would consider ensure capital gain and to avoid losses. In response to this, the *Shariah* Advisory Council of Securities Commission Malaysia at its 35th meeting in 2001 resolved that a third-party guarantee on the capital invested based on the *mudharabah* principle is permissible. *Shariah* Advisory Council of Bank Negara Malaysia's ruling in 2009 has also resolved the same stance in allowing third-party guarantee on liability of any party who deals with the *mudharib* in *mudharabah* transaction is permissible. SAC of BNM further elaborates that such third-party guarantee is consistent with the permissibility of *kafalah* contract. In a *kafalah* contract, the third-party guarantor shall be a party with no direct interest in the *mudharabah* business (BNM, 2010).

Kafalah (Guarantee) on Mudharabah Capital

Kafalah generally means a guarantee. It is defined as a contract which combines one's *zimmah* (liability) with another person's *zimmah*. It is a contractual guarantee given by the guarantor to assume the responsibilities and obligations of the party being guaranteed on any claims arising thereof. This principle is also applied in loan guarantees whereby the guarantor assumes the liability of the debtor when the debtor fails to discharge his obligation.

According to the arguments of past Islamic jurisprudence, the jurists were unanimous in their opinion that when losses occur in a *mudharabah* contract, the loss is to be borne by the *rabb mal* and not the *mudharib* as the latter's status is only *amin* (trustee). However, if it could be proven that the loss was clearly due to the *mudharib*'s fault, negligence or contradiction of terms of the contract, then the *mudharib* should be held liable. (Ibnu Qudamah, 1998). Past Islamic jurists were unanimously of the opinion that in a situation where a loss occurs on a *mudharabah* other than in the case of fault, negligence and contradiction of the contractual terms), a capital guarantee by the *mudharib* is not permissible.

Contemporary Islamic jurists have made studies on the acceptable level of capital in *mudharabah* contracts that can be guaranteed according to the perspective of Islamic jurisprudence. The main issue of concern in relation to capital guarantee is whether the guarantee given will cause the *mudharabah* contract to be nullified since it violates the *muqtada `aqd* (the main essence of the contract). They have submitted several solutions on capital guarantee on *mudharabah* including third-party guarantee based on *tabarru`* (voluntarily given), guarantee through special funds or by taking takaful on the *mudharabah*.

Third Party Guarantee

With regards to third-party guarantee, the OIC *Fiqh* Academy (*Majma' Fiqh*) while discussing on the matter of issuance of *sanadat muqaradah* summarised that a *mudharib* is not allowed to guarantee the capital and profit in *mudharabah* arrangement. However, the guarantee may be issued by a third party who has no connection with the *mudharib* if it is done by way of *tabarru`* and is not included as a condition in the actual *mudharabah* contract sealed and signed by both parties.

The *Shariah* Council for the Accounting and Auditing Organization for Islamic Institutions (AAOIFI) allowed for third-party guarantees other than by *mudharib* or investment agent or business partner towards the liability of investment losses (AAIOFI, 2015). However, this is on the provision that the guarantee given is not tied to the original *mudharabah* contract. The basis of their decision is *tabarru'*, which is allowed by *shariah*.

Husain Hamid Hassan summarized the basis of the permissibility of third-party guarantees based on the views of the Maliki Mazhab which allow *wa`d mulzim* (promises that must be kept). It is further strengthened by *maqasid shariah* (*shariah*'s objective) which allows for such action.

On the other hand, protection of capital can also be made via provision of takaful. To do so, several *mudharabah* funds may agree to contribute to a fund that may be used to cover the losses that might be incurred by some funds. An entity, like takaful operator, may be appointed to manage this pool of funds on *wakalah* basis. By doing so, the trust can buy the confidence of the potential donors that their contribution in the *waqf* will be preserved.

FINDINGS & RESULTS

Proposed Unit Trust Waqf Models Based on PNB Fixed Unit Trust Structure

In the bid to ensure that the *ummah*'s economy would continue to grow, on-going research pertaining to *waqf* development can be regarded as an evergreen facet of harnessing the creation of new *waqf* instruments. Fundamentally, the creation of robust and strategic *waqf* development models can be narrowed down to aim to achieve two main goals: first, to enhance the performance of existing income producing assets for better return for *waqf* survival as well as for the beneficiaries' benefit, and second, to have a wide base of *waqf* collection platform in optimizing cash *waqf* collection through feasible structures.

Features of Unit Trust Waqf under PNB

An interview with PNB has revealed several important features of unit trust funds that are managed by PNB. Currently, PNB are managing 14-unit trusts funds that can be divided into two categories namely fixed price fund and variable price fund. One of the proposed models of unit trust waqf is to introduce temporary *waqf* where the unit holders would be given choices to endow certain portion or percentage of the dividend as *waqf*. The dividend *waqf* would be channeled to charity projects that have yet to be determined by PNB in near future. In managing *waqf* fund or cash as *waqf*, PNB guided by strong governance will strictly maintain its professionalism to ensure that *waqf* fund is channeled to qualified beneficiaries.

One of the arguments of cash *waqf* is the money should be invested in various investment avenues such as unit trust. This is true for individuals as they are allowed to invest in unit trust under PNB, whereas *waqf* institutions are not eligible to do so as the regulation only allows individuals to invest or place their money in PNB unit trusts, not institutions. Thus, unit trust is not a viable instrument for *waqf* institutions to diversify their investment.

For centuries, since its establishment, PNB unit trust such as ASB and ASN are widely known to be the safest and most affordable investment tool with low inlay for individual investors particularly for those who are living in rural areas. PNB unit trust such ASB and ASN remain as the most popular investment tool among Bumiputera and Muslims in Malaysia with promising return around 7-8% along with the popular tagline that the investment is guaranteed by the government. According a source from PNB, the assumption that the investment in these funds are guaranteed by government is quite misleading and could be wrongly interpreted by public as it has never been documented in any official documents or guidelines at PNB level. However, all PNB fixed price unit trusts have distinctive feature in contrast to the variable unit trusts as the selling price of the fixed price units will remain the same as the buying price at RM1 which means that the fixed price unit trusts will not be affected by market condition. On the other hand, the price of variable unit trusts is subject to normal investment rule as the price will be determined by market forces.

The initiative of having fixed price unit trusts is actually in line with the key objective of PNB establishment 41 years ago that is to provide an avenue for farmers in rural area to participate in national agenda of increasing Bumiputera's equity in corporate sector. By having this pool of fund managed by PNB, it can be invested in various strategic companies such as automotive and pharmaceutical companies.

In line with the popular feature of PNB fixed price unit trust, the proposed model of unit trust *waqf* shall be offered based on this special feature as to ensure the capital of unit trust *waqf* can be preserved without being affected by the demand and supply forces.

Based on the state law, only appointed sole trustee can manage *waqf* properties which also include other form of assets such as cash and unit trust *waqf*. Thus, PNB as the fund manager of unit trust *waqf* must get consent from the State Islamic Religious Council (SIRC) to be lawfully mandated in managing *waqf* unit trust. As for now, PNB has approached few SIRCs to collaborate with them in realizing their effort to establish the first unit trust *waqf* in this country.

CONCLUSION

Unit trust *waqf* is an Islamic financial innovation which could bring tremendous benefits to the *waqf* institution in Malaysia and other countries, other than the *waqf* beneficiaries. In managing the unit trust *waqf*, fund managers are allowed to dispose lost shares and to replace them with potential profitable shares or any fixed asset that can generate competitive income to waqf. Apart from that, capital guarantee by third-party that has no direct ownership or interest to fund manager or *mudharib* is also permissible in order to maintain the survival of waqf fund. With this approach, the objective of the waqf in ensuring continuous benefit to waqf beneficiaries can be achieved and realised. The novelty of this study lies on the proposed conceptual models of *waqf* of unit trusts based on PNB's fixed unit trust structure that could be useful to *waqf* stakeholders in Malaysia, when its future implementation could be given a full consideration. This study is a part of many efforts from various quarters to promote the application of contemporary *waqf*, particularly unit trust, as a new category of *waqf* asset. At the same time and more importantly, promoting unit trust *waqf* can be a vehicle to encourage more philanthropic and charitable values among members of the society.

ACKNOWLEDGMENT:

The authors gratefully acknowledge the invaluable cooperation for all participants of the study, and the financial support by Yayasan Tun Ismail's Research Grant USIM/YTI/FEM/052002/41818.

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