

AN ANALYSIS OF *SUKUK* AS A SIGNIFICANT FINANCIAL INSTRUMENT FOR THE MANAGEMENT OF *WAQF* FUNDS IN MALAYSIA

Norhayati Abdullah¹, Masri Azrul Nayan², Yusuf Haji-Othman³, Mohammadtahir Cheumar⁴

^{1,2,3,4}Center for Islamic Finance Education and Research, Sulata Abdul Halim Mu'adzam Shah International Islamic University, Kedah, Malaysia

Abstract

Since it originated in the early 1990s, *Sukuk* has been one of the most significant financial engineering innovations in the Islamic capital market. As an equivalent to conventional bonds, Customary *Sukuk* provides the opportunity to mobilize long-term Shariah-compliant funds in line with *Shari'ah* requirements. Financial experts in the Islamic capital market have developed various Shariah-compliant *Sukuk* structures, among which *Sukuk* structures are based on *Waqf*. Various efforts need to be made to regenerate the economic sector, especially using Islamic capital market platforms. This study focuses on the concepts of *Waqf-Sukuk* that have been and can be used to reconstruct the economy. This study employs library research with reference to previous studies done in the form of theses, journals, books, reports, etc. The combination of *Sukuk* and *Waqf* can provide a powerful platform in developing the economy through managing the *Waqf* fund in Malaysia.

Keywords: *Sukuk*, *Waqf*, *Waqf-Sukuk*

Introduction

Since its commencement in the early 1990s, *Sukuk* has been one of the most significant financial engineering innovations in the Islamic capital market. As an equivalent to conventional bonds, Customary *Sukuk* provides the opportunity to mobilize long-term Shariah-compliant funds in line with *Shari'ah* requirements. Financial experts in the Islamic capital market have developed various Shariah-compliant *Sukuk* structures, among which *Sukuk* structures are based on *Waqf*. The combination of Islamic capital markets, particularly *Sukuk* and *Waqf*, can provide an excellent platform for developing Muslim countries' economics. Given the current popularity of *Waqf-Sukuk*, this study focuses on the concepts of *Waqf-Sukuk* that have been and can be used to restore during the pandemic Covid-19. Next, we look at the latest developments in *Sukuk* innovation in Malaysia and how these concepts can be applied and functional in the current economic situation. This study employs library research with reference to previous studies done in the form of theses, journals, books, reports, etc.

Islamic Capital Market Scenarios

Malaysia continues its position as a leader in the Islamic capital market (ICM), including the world's largest *Sukuk* market and the leading Islamic fund center for Islamic capital products and fund management. The Securities Commission of Malaysia (SC) anticipates the country's 2020 corporate bonds and *Sukuk* issuance to be between RM90 billion to RM100 billion compared with RM132.82 billion in 2019, as the Covid-19 pandemic and the resultant disturbance on businesses affected fundraising activities. Therefore, it is more challenging to project the size of fundraising in the current environment (Securities Commission, 2020).

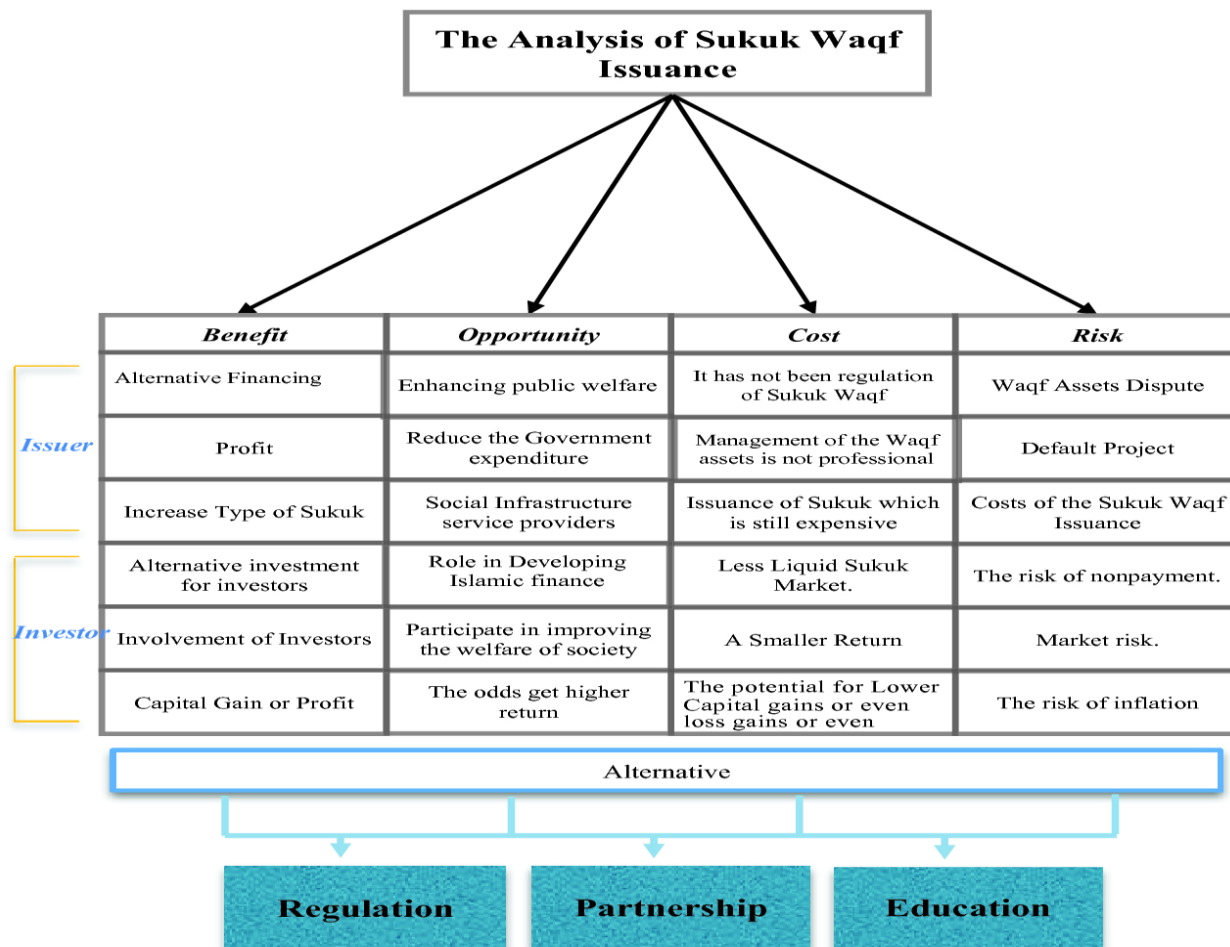
Notwithstanding during this critical period, the Islamic capital market still presents significant opportunities, backed by the alignment between the underlying principles of Islamic finance and sustainable and responsible investment (SRI). The SC said that there had been a vital proponent of the convergence between the two financial industry segments.

SC believed that this would continue. Given the current environment, there is a greater need for social projects to be funded. The Islamic finance and the Islamic capital market can come into place. Apart from SRI and SDG (sustainable development goals) bonds, we can also assume to realize other innovations in the ICM, namely *Waqf Sukuk*.

In addition, to facilitate the development of a *Waqf* concept associated with the capital market, the SC also seeks to leverage 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*. *Sukuk-Waqf* refers to a tradable certificate of equal monetary value representing 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 structures 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 significant as a catalyst for economic growth, improving the quality of community life, and guaranteeing 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 significant 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* aims to profit based on the “returns are justified by taking risks” rule. 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

the big public project since of inadequate funds or time pressure. Benevolent loan (*Qard al-Hassan*) might be one of the instruments that could complete the structure of the project. Innovation is an essential element that must exist to develop and maintain the *Waqf* continuously. Management institutions and *Waqf* trustees can venture into capital raising to develop *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 is the largest *Sukuk* producer globally, and *Sukuk* has been used as an instrument to raise capital for travel and economic sector development. *Waqf-Sukuk* can function as a financing instrument offered by Islam to help cover public spending for the people. Indeed, these institutions have played an essential role throughout the Islamic civilization and need more innovation to meet today's economic challenges.

The SC has undertaken efforts to expand access to the capital market, 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 developing *Waqf* assets.

Some studies aimed to explore a sustainable and responsible investment (SRI) *Sukuk* model based on *Musharakah* that could develop *Waqf* properties and assets under the SRI *Sukuk* framework in Malaysia. The studies proposed and designed a potential SRI *Sukuk* model and sought the opinion of subject-matter experts and industry practitioners on the model, its attractiveness to investors, and its feasibility to implementation.

This study also analyzes the cases of the first SRI *Sukuk* issued in Malaysia and other *Waqf*-related *Sukuks* structured to develop *Waqf* property in the past to establish an SRI *Sukuk* model. The study proposes the most feasible SRI *Sukuk* model that could be implemented in the Malaysian context to develop *Waqf* property, a *Musharakah*-based *Sukuk* model. This study extends the model 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. At that time, SRI *Sukuk* was under construction. One of the closest *Sukuk* models was issued to develop *Waqf* in Singapore, the *Bencoolen Waqf* project. The first fundraising project is to renew a *Waqf* property in Singapore by issuing *Sukuk Musharakah* by the Islamic Religious Council of Singapore (MUIS). On the other hand, *Sukuk Intifa'* was issued to develop *Zam Zam Tower* on *Waqf* land in Saudi Arabia.

Ismael et al. (2015) discovered the potential issuance of sovereign *Sukuk* linked to *Waqf* properties to develop massive local underdeveloped *Waqf* in Indonesia. The study also proposed *Sukuk* linked to *Waqf* asset as an underlying asset of financing in a *Sukuk* originations. The *Waqf* linked *Sukuk* issuance is proposed for the real economic sector development, just like *Sukuk*'s project. Depending on the investors' preference, the *Sukuk* can be fine-tuned to serve commercial and social purposes.

The problem of *Waqf* development today is primarily due to a lack of funds to finance its development and maintenance. That is why the Malaysian government started an initiative that allocates RM256.4 million in 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 in the whole country that has been applied by the State Islamic Religious Council (PLAY) is over RM1 billion.⁴⁴ 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, more significant, and more vigorous capital raising.

For the first time and the first of its kind in the world, Malaysia has succeeded in structuring SRI *Sukuk* in the denomination 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. The government is committed to raising the level of education in Malaysia in proportion by global standards. It enables students to have high skills to enter university and be more competent in facing future educational and career challenges at home or abroad. To that end, a strategic alliance through public-private partnerships with the Ministry of Education Malaysia was created. This alliance enables a fund through SRI *Sukuk* to fund educational projects to drive the transformation of student achievement in public schools. Khazanah Nasional Bhd, through Special purpose company (SPV) courtesy of *Sukuk* Berhad, is issuing SRI *Sukuk* to finance the planned project to fund this project (Syahirah Zain & Zulkarnain Muhamad Sori (2017)).

Issues and Challenges

Innovation is an essential element that must exist to develop and maintain the *Waqf* can be done continuously. Management institutions and *Waqf* trustees can venture into capital raising to develop *Waqf* projects using financial market tools capital. The role of social finance via technology was reemphasized in response to the idea that economic shocks accelerate innovation. When the fintech curve flattens, the role of Islamic finance will become more evident.

Conclusion

History has exposed that the contribution of *Waqf* in the economy is significant as a catalyst for economic growth, improving the quality of community life, and guaranteeing the continuation of Islamic law. However, if the ventures are not optimally developed, they will not benefit the community and its beneficiaries. Therefore, efficient and transparent *Waqf* management is vital to achieving the objective of *Waqf*. Empirical studies are needed to provide a more comprehensive idea and knowledge of the more dynamic structure of the *Waqf-Sukuk*. This study offers many benefits for 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 help to realize the true *Waqf* as a religious tool and as an instrument for human, economic, and social development.

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