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**Contemporary Integration of *Waqf* and Unit Trust: Recent Application in
Malaysia**

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Abstract

With the appropriate structure and strategy, *waqf* can support many spheres of life, including the growth of the mainstream economy. The historical evidence has demonstrated the enormous contribution of *waqf* institutions to the advancement of the Muslim community. The *waqf* concept has been integrated into a variety of financial assets, including Shariah-compliant investment vehicles like unit trusts, as Islamic finance has developed in modern times. This paper aims to highlight the recent development of *waqf*-linked unit trust funds within the Malaysian context. The current study employed a qualitative research approach, which was designed through the use of document analysis of policy documents, journal articles, books, and online resources. The paper concludes that the *waqf*-linked unit trust fund, which upholds strong governance and a robust investment framework can contribute to the sustainable development of the Islamic community's socio-economy. *Waqf* managers are urged to fully embrace the digital agenda in tandem with the Financial Sector Blueprint 2022-2026 in order to enable a digitalised ecosystem and fintech inclusion in managing *waqf* funds. This will improve the effectiveness of good governance and integrity in the *waqf* sector.

Keywords: *Waqf*; Shariah-compliant unit trust fund; Islamic finance; Islamic social finance

1. Introduction

Waqf is an absolute and voluntary devotion of any asset, whether mobile or immovable, to be used in accordance with Allah's commands, i.e., to uphold human welfare (Iman & Mohamad, 2017). Any property dedication within the scope of *waqf* is acknowledged by Islamic law to be for charitable or religious purposes. *Waqf* was a common practice in the time of the Prophet Muhammad (PBUH) and among his followers. Jabir bin Abdullah's statement that "None of the companions of the Prophet Muhammad (PBUH) is not practising *sadaqah* (*waqf*)" supported the widespread adoption of *waqf* by the Prophet's (PBUH) companions. (al-Nawawi, t.t). *Waqf* is regarded as *sadaqah jariyah*, from which reward accrues until the Day of Judgement. Any strategy that is progressive in the growth of the *waqf*'s property might further demonstrate the *waqf*'s continuous or perpetual feature. According to Hasan and Sulaiman (2016), all *waqf* assets should be adequately utilised and cared for in addition to ensuring the survival of *waqf* assets to guarantee the sustainability of the returns to the *waqf*'s beneficiaries. In the same way, the continual development of benefits from *waqf* use is itself a mechanism that helps enhance the ummah's standard of life and lessen challenges and poverty among the needy and the destitute (Kahf, 1999). *Waqf* assets should be used to finance the Sustainable Development Goals (SDGs) agenda which aims to end all forms of poverty, address environmental and healthcare problems, combat inequality, and ensure that no one is left behind (UNDP, 2017).

2. Literature Review

2.1 Waqf Initiative in the National Agenda

A study on *waqf* and Islamic capital market integration is undoubtedly a necessary call for sustainable socioeconomic development, particularly during the nation's economic recovery period from the COVID-19 pandemic shock. According to JAWHAR (2014), *waqf* assets should be independent and self-sufficient in terms of income generation within the Malaysian ecosystem. The idea of establishing a National *Waqf* Masterplan is to facilitate the mobilisation of future endowment assets as well as improve and guarantee better *waqf* administration. (National Budget. 2021. Therefore, there is always a significant demand for ongoing research to combine the *waqf* concept with modern financial mechanisms to finance the development of *waqf* assets as well as worthwhile community projects (Kahf, 1998). The Islamic capital market, in particular, has the ability to not only facilitate but also expedite the *waqf* assets on a larger scale in modern financial applications.

The venture into wealth in modern forms, such as shares and cash, diversifies *waqf* sources, which can improve *waqf* not only in terms of its flexibility but also in the public's involvement in *waqf*. Investing the *waqf* revenues in balanced, less volatile portfolios of the unit trust fund, where the assets underpinning these portfolios are predominantly stable fixed income assets classes like money market instruments and Sukuk, is one way to implement this diversification (Sulaiman et al., 2019). Fundamentally, the incorporation of investment tools like unit trusts and *waqfs* is a very desirable innovation that might be pursued as a mechanism for a sustainable investment paradigm.

2.2 Overview of the Shariah-Compliant Unit Trust Fund Sector in Malaysia

A Shariah-compliant unit trust fund or mutual fund is one sort of collective investment plan that offers investors the chance to invest in a diverse investment portfolio of shariah-compliant Sukuk, securities, money market instruments, commodities, or real estate. Shariah-compliant unit trust funds give investors the chance to diversify their holdings across several financial asset classes. Professional fund managers invest the funds raised from a wide portfolio of Shariah-compliant financial instruments, depending on the goals of the funds.. According to the Securities Commission of Malaysia (SC) (2009,) there are two ways that investors in Islamic unit trust funds might generate income: through the distribution of income and/or through capital gains.

The total net asset value (NAV) of the unit trust fund industry in Malaysia is recorded at RM486.79 billion. Out of this, 21% of the total fund is Shariah-compliant which stands at RM 106.85 billion as of 30 June 2022 (SC, 2022). Given the enormous scale of the Shariah-compliant amount, there is obviously a large potential for developing a superstructure source of *waqf* funds; as a result, the existing mechanics should allow a pathway for unit holders or unit trust investors to channel portion of their dividend or units as *waqf* or endowment.

2.3 Fatwa on the Acceptability of Waqf-Unit Trust

In its 111th meeting, the National Fatwa Committee for Islamic Religious Affairs resolves that a Shariah-compliant unit trust qualifies as a *waqf* asset and is therefore recognised by Islamic law (Jakim, 2017). Earlier, at the Majma' Fiqh's 19th meeting, held in the United Arab Emirates in 2009, it was decided that *waqf* in the form of financial instruments, such as shares, sukuk, intangible rights and unit trusts, is permissible from the Shariah perspective (International Fiqh Academy, 2009):

“Endowing shares (which are Shariah-compliant), intangible rights, Sukuk, unit trust, and benefits are permissible because they are assets that are recognized by Shariah”
(Resolution No. 181)

Legally, the endowment of assets in the financial form, like unit trusts and shares, is permitted by a number of State enactments in the Malaysian legal system. One of the most glaring examples is section 10 of the Enactment *Waqf* (Perak) 2015. This law demonstrates that unit trusts are allowed to be the subject of *waqf*, of which permissibility is according to the manner *waqf* of shares is defined which suggests the inclusion of “unit trusts”. The legal provision shows that numerous State Islamic Religious Councils (SIRCs) in Malaysia have accepted the use of *waqf* in contemporary society through modern financial assets and modern application.

3. Waqf-Featured Fund Framework: Recent Development of in Malaysia

An effective technique for growing and empowering *waqf* appears to be its integration with the Islamic financial system. *Waqf*-featured unit trust has been identified as a practical method for enabling and speeding up the development of *waqf* assets on a larger scale (Sulaiman et al., 2019).

3.1 Guidelines of Waqf-Featured Unit Trust Fund

The updated Guidelines on Unit Trust Funds and the Guidelines for Unlisted Capital Market Products were released by the Securities Commission of Malaysia (SC) in November 2020 under the Lodge and Launch Framework (SC, 2020). The programme is designed to make it easier to offer the *waqf* feature in Islamic funds, which helps the Islamic social finance sector expand. Philanthropic investors have been drawn to this initiative because *waqf* development has been seen as a prominently promising area for wealth distribution, social development, and increased public welfare. There are currently four (4) unit trust fund managers offering *waqf*-featured unit trusts, indicating that the *Waqf*-Featured Fund Framework has encouraged the Islamic unit trust fund industry to venture into *waqf*. An Islamic fund with the *waqf* feature, as defined in Chapter 14 of the guidelines, is one that enables unit holders to reserve their rights to the units they purchased and to *waqf* all or a portion of the distribution income.

One of the primary goals of an investment fund with a *waqf* feature is not only to generate revenue but also to enable the unitholders to contribute all or a portion of that income for *waqf* as prescribed in the guidelines. The fund is only allowed to direct a portion of the distribution designated for *waqf* to the following recipients: (a) any state Islamic religious council (SIRC); or (b) any organisation or institution that the SIRC has authorised to act as a *mutawalli* (*waqf* administrator) or collection agent for *waqf*. The rule implies that the benefits can only be channelled to a designated institution and not to any individuals unless they are authorised by the SIRC.

The guidelines state that the fund must disclose in its product highlights sheet and prospectus the detailed descriptions of information related to the arrangement of the *waqf*, which must include the *waqf* initiatives and the names of the *waqf* recipients. This disclosure is required to ensure the transparency of the *waqf* distribution to the recipients. The fund must also provide investors with information about the *waqf* recipients and the status of the *waqf* activities. Aside from that, the fund manager is obligated to provide information about the *waqf*, the recipients of the *waqf*, and a link to recipients' websites.

To support effective *waqf* governance, the clause expressly recognises the value of transparency in *waqf* reporting. Transparency and accountability are essential given the trend in *waqf* management, which has shifted from land *waqf* to cash *waqf* and even to digital currency. Accountability in *waqf* is important and aims to ensure that social services are released to society in an effective manner (Kamarubahrin et al., 2019). In fact, accountability has been a pillar of prior *waqf* success stories, and the collapse of *waqf* has been attributed to the degradation of the trustee's accountability (Ayedh & Kamarubahrin, 2018).

3.2 Waqf-Featured Unit Trust Funds in Malaysia

Currently, there are four (4) *Waqf*-Featured Funds in Malaysia that philanthropic *waqf* investors may choose from. These funds are Makmur myWakaf Fund issued on 3 March 2021 by BIMB Investment Management Berhad, PMB-An-Nur *Waqf* Income Fund issued on 18 March 2021 by Pelaburan Mara Berhad, Kenanga *Waqf* Al-Ihsan Fund issued on 13 April 2021 by Kenanga Investors Berhad, and Maybank Mixed Assets-I *Waqf* Fund issued on 3 May 2021 by Maybank Asset Management Sdn. Bhd.

Table 1: Monthly Asset Under Management of *Waqf*-Featured Fund in Malaysia.

Source: Data as of 31 July 2022 extracted from Refinitive Lipper for Investment Management

Fund	Launch Date	AUM (RM 'million)																
		Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022
Makmur myWakaf Fund	3 March 2021	0.00	11.08	11.06	11.06	11.04	11.18	11.01	11.01	11.08	1.95	10.50	9.64	9.52	9.52	9.18	8.29	8.29
PMB-An-Nur Waqf Income Fund	18 March 2021	0.00	4.13	4.71	5.28	6.34	6.47	7.00	7.20	7.26	7.68	7.52	7.52	7.86	7.63	7.60	7.77	7.88
Kenanga Waqf Al-Ihsan Fund	13 April 2021	-	0.00	3.90	7.13	7.52	7.78	7.82	7.85	7.59	7.58	7.19	7.11	6.80	6.04	5.93	5.70	5.60
Maybank Mixed Assets-I Waqf Fund	3 May 2021	-	-	0.53	0.53	0.99	1.56	1.56	1.97	2.00	1.95	1.77	1.57	1.60	1.58	1.36	1.32	0.96
BSN Dana Wakaf Al-Ikhlas	25 Mar 2022	-	-	-	-	-	-	-	-	-	-	-	-	0.00	25.55	24.88	24.31	24.53
Total AUM		0.00	15.21	20.20	24.00	25.89	26.99	27.39	28.02	27.93	19.16	26.98	25.84	25.78	50.32	48.95	47.39	47.26

As of 31 July 2022, the Asset Under Management (AUM) extracted from Refinitive Lipper for Investment Management of four *Waqf*-Featured Funds in the Malaysia IFM industry was recorded at RM47.26 million (Table 1). This amount is still relatively small which stood at only 4% of the total AUM of Shariah-compliant unit trust funds in Malaysia. Hence, lots of effort need to be concerted to increase awareness among the unit holders to endow part of the dividend as *waqf*.

4. *Waqf*-Featured Unit Trust Fund Proposed Models under the Guidelines of the Securities Commission

In a previous study, a number of conceptual models for unit trust *waqf* were proposed for future implementation (Sulaiman et al., 2019). The following is a summary of these models:

- Either the entire unit trust or a portion of it may be endowed to *waqf*.
- Cash *waqf* is accumulated to buy (or invest in) unit trusts.
- Waqf* on the entire dividend or a portion of it.
- The fund manager may donate all or a portion of the fees earned from running the *waqf* unit trust.

As far as the SC's *Waqf*-Featured Fund Framework is concerned, the applicable model of a *waqf*-linked unit trust is based on the *waqf*-dividend structure, which means that the endowed subject matter is the return or dividend of the unit trusts. The guidelines recognise the *waqf* on the entire or a portion of the dividend. Undoubtedly, this represents significant progress in integrating *waqf* into an Islamic capital market, particularly in unit trusts and the wholesale fund, but more work may be required to support the different models, as proposed by Sulaiman et al (2019).

5. Current Application of *Waqf*-Featured Unit Trust Fund in Malaysia

5.1 *Waqf*-Featured Fund Objectives

Every unit trust targets a different set of general goals, such as growth, income, or a mix of the two. With reference to the *Waqf*-Featured Fund, it is distinctive that it has a philanthropic goal, with a percentage of the earned income going to areas like religion, healthcare, community empowerment, and education. Based on *waqf* principles, each *Waqf*-Featured Fund encourages investors to donate the proceeds to organisations or communities in need through the designated *waqf* administrator. The percentage of distribution to be channelled for *waqf* purposes must also be clearly spelt out in the offering documents.

5.2 Waqf Administrator and Waqf Recipients

Currently, there are three (3) institutions that have been appointed as *waqf* administrators (*mutawalli*) of the *waqf* unit trust funds. The Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) has been designated as the *waqf* administrator (*mutawalli/nazir khas*) for the Makmur myWakaf Fund. *Waqf* An-Nur Corporation Berhad is the *waqf* administrator for PMB-An-Nur *Waqf* Income Fund. While Yayasan Waqaf Malaysia (YWM) is the *waqf* administrator for two funds namely Kenanga *Waqf* Al-Ihsan Fund and Maybank Mixed Assets-I *Waqf* Fund.

The *waqf* administrators are also the legit recipients of the *waqf* distribution as stipulated in the Guidelines which can be summarised as follows:

- The *waqf* administrator or *waqf* recipient must be authorised by the Federal or State Islamic religious council to act as a *waqf* administrator (*mutawalli/nazir khas*) or collection agent for *waqf* purposes;
- Must have an adequate governance structure and framework;
- Must have an audited annual financial statement; and
- To publish the annual report on the *waqf* distribution and utilisation on its website.

If the appointed *waqf* administrator ceases to meet the criteria, the fund manager will take immediate action to remove it and replace it with another *waqf* administrator that meets the criteria, subject to the approval of the *Waqf*-Featured Fund Shariah Adviser. Additionally, the fund manager may designate more than one (1) institution to receive the *waqf* contribution. By subscribing to the *Waqf*-Featured Fund, the investors also agree to delegate the authority to select or remove the *waqf* administrators/recipients, subject to the Shariah Adviser's approval.

6. Important Features of Unit Trust Funds with *Waqf*

Essentially, this study has identified four crucial components of *waqf*-featured unit trust funds, which are illustrated in Figure 1. These components are sound corporate governance, a strong investment strategy carried out by highly qualified fund managers to ensure the *waqf* recipients' ongoing benefits, philanthropic goals, and a digitally based *waqf* system.



Figure 1: Essential Aspects of *Waqf*-Featured Unit Trust
Source: Authors' Own

Waqf must be managed professionally to ensure its perpetual function, which requires a strong corporate governance framework. High transparency in the management of *waqf* and their reporting is essential to increase the confidence and trust of their stakeholders and narrow the gap between donors and administrators (Kamaruddin, 2018). *Waqf* management would be more transparent and accountable when it is handled by a professional fund manager (Ramli & Jalil, 2014), both of which are benefits that contribute to promoting prosperity.

In the meanwhile, fund managers must focus on developing a robust and sustainable investment plan. This strategy will ensure that the *waqf*-featured unit trust stays focused on its goal of satisfying the endowers' desire to provide recipients with sustainable benefits (Sulaiman et al., 2020). Additionally, the majority of the formed funds are concentrated on philanthropic objectives in order to mobilise *waqf* funds for a variety of sectors, including religious activities, education, healthcare, community empowerment, and the environment. The Malaysian *waqf* sector also should be revitalised to move toward digitalization and fintech inclusion given the recent growth of the digital economy. As highlighted by Rabbani (2020), Islamic fintech has the potential to offer a solution to a number of stumbling blocks. As a result, it may efficiently carry out the duties set forth by Shariah law and develop creative avenues for the accomplishment of some of the Muslim community's most important financial-related obligations.

7. Conclusion

The establishment of the *waqf*-linked unit trust fund in Malaysia is strongly supported by the resolute fatwa decisions coupled with a strong regulatory and thorough supervision framework, which are crucial in achieving philanthropic objectives in empowering ummah's well-being. As a result, the *waqf*-featured unit trust seeks to expand and reinvent the role of philanthropic investors in contemporary society by supporting charitable causes and connecting with the local community through the *waqf* concept. *Waqf* managers are urged to fully embrace the digital agenda in order to enable a digitised ecosystem and fintech inclusion in the management of *waqf* funds. This will work in tandem with Strategic Thrust 3 of the Financial Sector Blueprint 2022-2026 to advance the digitalisation of the financial sector to increase the effectiveness of good governance and integrity.

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