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## A Conceptual Framework in Synergizing Waqf Real Estate and Zakat through Strategic Integration for Malaysian Asnaf

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### Abstract

Strategic integration in *waqf* real estate and *zakat* projects yields sustainable benefits generated by State Islamic Religious Councils (SIRCs) for *asnaf* development. Among Muslims, *asnaf* groups have been highlighted in Islam to be eligible to receive *zakat* funds. There are eight categories of *asnaf* that represent the basic needs of an individual in Islam. The Islamic philanthropy study takes place theoretically and empirically in many Muslim countries. In Malaysia, the operation of *waqf* and *zakat* systems in institutional form has been well developed. However, the potential significant utilization of *waqf* real estate and *zakat* fund integration for *asnaf* development is limited and as yet still untapped. This paper reviews the relevant literature on the integration of *waqf* and *zakat* and then developing and proposing a conceptual framework in synergizing *waqf* real estate and *zakat* through strategic integration for *asnaf* development. The paper identifies the appropriate components such as cash *waqf*, funds from *Baitulmal* and involvement from Corporate Social Responsibility (CSR) as the elements to strengthen the integration. In cognizance with this study, the government as policymaker, SIRCs, corporate bodies and Islamic charity organizations must collaborate to boost *asnaf* abilities in many areas.

**Keywords:** Synergizing Waqf Real Estate and Zakat, Strategic Integration, Malaysian Asnaf

### Introduction

Islamic philanthropy has been practiced since the time of Prophet Muhammad (PBUH) and his companions. *Zakat*, *Sadaqah* (charity), *Waqf* (donation) and *Qard Al-Hasan* are some of the Islamic philanthropy that reflect and promote the social tenets of Islam. There is a need to fully utilize the Islamic philanthropy concepts to narrow the gap between the Islamic philanthropy instruments which have been operating independently in the Islamic social institutions. The dysfunction of Islamic philanthropy integration in the operations of Islamic organizations has not

been addressed. *Zakat* and *waqf* institutions have not been integrated in the poverty reduction strategies of the countries to enable effective use of the funds, and to provide a more meaningful impact on poverty (Shirazi, 2014).

Why is it important for us to integrate the concept of *zakat* and *waqf* in the development of *asnaf*? How do we integrate these concepts of *zakat* and *waqf*? To answer all these questions, this paper will discuss the importance of integrating the concept of *zakat* and *waqf*, and how we should integrate it. In Islam, the needy groups are accorded strong protection through *zakat*. Allah has stressed 32 times in the Qur'an on the importance of *zakat* being paid by persons on whom *zakat* payment is mandatory. In Sura At-Taubah (9:60), Allah has classified the *zakat* recipients under the following eight categories: the poor, and the needy, and those who are employed to administer and collect it, and the new converts, and for those who are in bondage, and in debt, and service of the cause of God, and for the wayfarers.

In Malaysia, the State Islamic Religious Councils (SIRCs) are responsible for managing, collecting and distributing the *zakat* funds. One of the most noticeable economic aspects of *zakat* is the tendency for *zakat* to have cash in every year which means that *zakat* funds have very high liquidity. The collection has been guaranteed that every year *zakat* funds will be available because the payer will pay it. Moreover, Malaysia is a country that has instituted *zakat* as an important tool for poverty reduction. Table 1 shows that there has been a slight increase in the number of *zakat* collection in some states in Peninsular Malaysia from 2011 to 2016.

Table 1: *Zakat* Collection from 2011 to 2016 in Some SIRCs in Peninsular Malaysia

States	Zakat Collection (RM) 2011	Zakat Collection (RM) 2012	Zakat Collection (RM) 2013	Zakat Collection (RM) 2014	Zakat Collection (RM) 2015	Zakat Collection (RM) 2016
Penang	58,215,179	72,296,317	80,779,499	82,213,792	88,282,057	92,132,722
Kedah	-	100,560,654	116,656,079	127,593,807	133,859,550	140,448,128
Perak	87,419,398	103,202,759	109,825,143	114,588,532	132,224,707	140,019,980
Selangor	394,103,904	451,325,027	517,305,275	582,255,890	627,220,773	673,736,282
Negeri Sembilan	54,021,712	61,367,843	74,763,585	84,010,983	90,145,167	100,412,122
Pahang	82,689,384	102,875,834	109,240,524	102,604,313	111,286,928	-

It has been increasing steadily due to the widespread utilization of internet that has changed the *zakat* collection strategies (Roni & Tarmidi, 2015). *Zakat* helps to generate a flow of funds to support the needy based on consumption, and is managed by *zakat* institutions. Thus, the integration of *waqf* real estate and *zakat* to fund *asnaf* projects provides sustainable benefits for *asnaf* development. This upward shift is beyond the demand for basic necessities of life such as food, clothing and shelter, resulting in the gradual expansion of the production facilities which will eventually begin to absorb the idle capital (Johari, Ali, & Aziz, 2015). The development of *waqf* real estate using *zakat* fund in project base is to fully utilize the resources owned by SIRCs.

Attempts to integrate *waqf* and *zakat* have occupied the attention of scholars (Hassan, 2010 ; Gustina & Ihsan, 2010; Raimi, Patel, & Adelopo, 2014; Shirazi, 2014; Hassanain, 2015)

between 2010 to 2015. Some of the popular models were designed to reduce poverty using microfinance concepts of income inequality (Hassanain, 2015). Another contribution from alternative model was introduced by Lukman Raimi 2014, to integrate *waqf* and *zakat* with Corporate Social Responsibility (CSR) in involvement through enterprise development. Lukman Raimi also found that CSR models driven by religion deliver more rigorous solutions to difficult problems such as poverty and unemployment, which CSR alone cannot evidently perform.

*Zakat* institutions in Malaysia has performed admirably in the collection and distribution of *zakat* among the deserving *asnaf*. The *waqf* institutions in Malaysia declared that they have 11,091.82 hectares of *waqf* real estate, of which an area encompassing 3,300.78 hectares or 29.75% have been developed. From these, there are 7,791.04 hectares or 70.25% of *waqf* real estate remaining to be developed (Sallehuddin Ishak, 2013; Ismail, Rosele, & Ramli, 2015; C. Anan Bin Mohd, 2015). Therefore, the remaining *waqf* real estate that needs to be developed has ingrained problems due to the financial resources (Mohammad & Mar Iman, 2006). It can be said that the involvement of *zakat* funds to develop *waqf* real estate in the economy and society in various ways implies that the trend is conducive towards the organic integration of the Islamic economic system in the modern world.

The integration of *waqf* and *zakat* by the majority of scholars are focused on giving *asnafs* opportunities to be involved in business. These arguments led to the growing adoption of microfinance concepts in literature. This paper therefore responds to the call for a broad approach that integrates *waqf* and *zakat* with another strategy that could effectively mitigate economic deprivation. This conceptual paper is premised on highlighting the integration of *waqf* real estate and *zakat* concept to empower *asnaf* development. This conceptual paper is discussed under five sections. Section I is the introduction; it provides concise background on the research problem. Section II explores the literature and previous scholarly works to provide grounds for the formulation of research propositions. Section III justifies the research methodology and discuss the conceptual framework in synergizing *waqf* real estate and *zakat* through strategic integration for the benefit of Malaysian *asnafs*. Section V concludes with research implications and gap for future research.

## Review of literature

### Poverty, Problems and Consequences

Islam is the religion of the Federation in Malaysia while other religions are allowed to be practiced too. The main concern here is, why is poverty suffered mostly by the Muslims? Poverty has become an economic, social, and political issue all over the world particularly in developing and third-world nations including many Muslim countries (Farah Aida Ahmad Nazri, 2012). Among the aims of the Government of Malaysia in the 11th Malaysia Plan was an emphasis on economic growth to improve socio-economic development (RMK-11, 2016). Poverty reduction is the main agenda of sustainable development to harmonize the multi ethnic groups in Malaysia. In Malaysian history, the 13 May 1969 tragedy occurred when the economic pie was not equally distributed among the citizens (Shamsuddin, Liaw, & Ridzuan, 2015).

Poverty in Malaysia has been conceptualised as economic or income poverty and is being measured using a Poverty Line Income (PLI) to differentiate poor and non-poor households (Siwar, Ahmed, Bashawir & Mia, 2016). Malaysia is not facing the severity of poverty as in Bangladesh for instance, where the country still has pockets of poverty (Ali & Hatta, 2014). In

view of the fact that poverty issues faced by Muslims in Malaysia is still high, it is worth mentioning that Islamic philanthropic integration is crucial to be implemented by SIRC. This is because, with *zakat* collections rising every year, the strategies in poverty reduction do not seem to help reduce the number of asnaf. At the same time there are a lot of idle *waqf* real estate that are not developed yet. The lingering possibilities underlying *waqf* and *zakat* under the management of SIRC are vital to be recognized to enable them to be transformed into a rights-based practice.

The concept of *waqf* decreed by Allah for the development of Islamic economy cannot be denied. *Waqf* has grown steadily since its beginnings, and has benefited the people and defrayed public expenses (Mahamood & Ab Rahman, 2015). Therefore, in the wake of the slowdown in the development of *waqf* real estate in Malaysia in particular, we begin to wonder whether Islam in Malaysia was not strong enough. This is implied by the low percentage of *waqf* real estate developments at only about 30%. This percentage was largely dominated by the development of graves and mosques. All this begs the question: how do we develop the *waqf* real estate with the available resources?

The key feature in integrating *waqf* and *zakat* concepts is to ensure that the organization or management of the institution is aware of the potential of both entities. *Waqf* and *zakat* institutions in Malaysia are managed by SIRCS within each state. What are the backgrounds of those managing SIRC currently? This will also influence the possibility of the integration. It is a widely-held view that, human capital plays an important role in both microeconomics and macroeconomics. Human capital represents individuals and communities investing in skills in response to the expected returns (Fleischhauer, 2007). In the context of *waqf* and *zakat* development, the investment of human capital in general is significant. Human capital development in terms of knowledge, skills, attitudes and aptitudes are interpreting valuable investments in SIRC.

### **The Nature of Real Estate and *Waqf* Real Estate**

The nature of real estate value from an economic perspective is defined as the price that will be paid for the highest and best use of real estate which, in an unfettered market, is determined by the forces of demand and supply (Roulac et al. 2006). Real estate is a significant value for each individual activity since real estate allows for various economic or social activities to grow. Real estate value can be defined as an art and science (French & Gabrielli, 2004) based on how the valuer determines the potential and the strategic location underlying the real estate.

The permanent nature of *waqf* real estate is a pull factor in the accumulation of wealth for a healthy Islamic society at large (Omar, Yusof, & Manaf, 2014). However, *waqf* real estate is a challenge to be developed as compared to conventional real estate due to religious factors bound to the real estate. Real estate developments need to have a huge capital outlay, especially in terms of financial, to ensure the project can be completed. As such, it is usual for developers to apply for bridging financing or by mortgaging their real estate to the financial institution to obtain fast cash. For *waqf* real estate, the SIRCS face difficulties in getting financial support from financial institutions, certainly more challenging than for conventional real estate developments. The financial aspect is the most common problem surrounding *waqf* real estate (Abdul Majid & Said, 2014). According to Tahir & Mar Iman (2006) the financial challenges facing *waqf* real estate can be tackled by forming a concept of cash *waqf* under *waqf* bank to be used for the

development cost of a *waqf* real estate. According to Tahir (2015) *waqf* bank may be able to generate rapid development to the *waqf* real estate performances. Unlike other real estate, *waqf* real estate development is more challenging due to the weak connection between *waqf* institutions with other government agencies and private professional bodies.

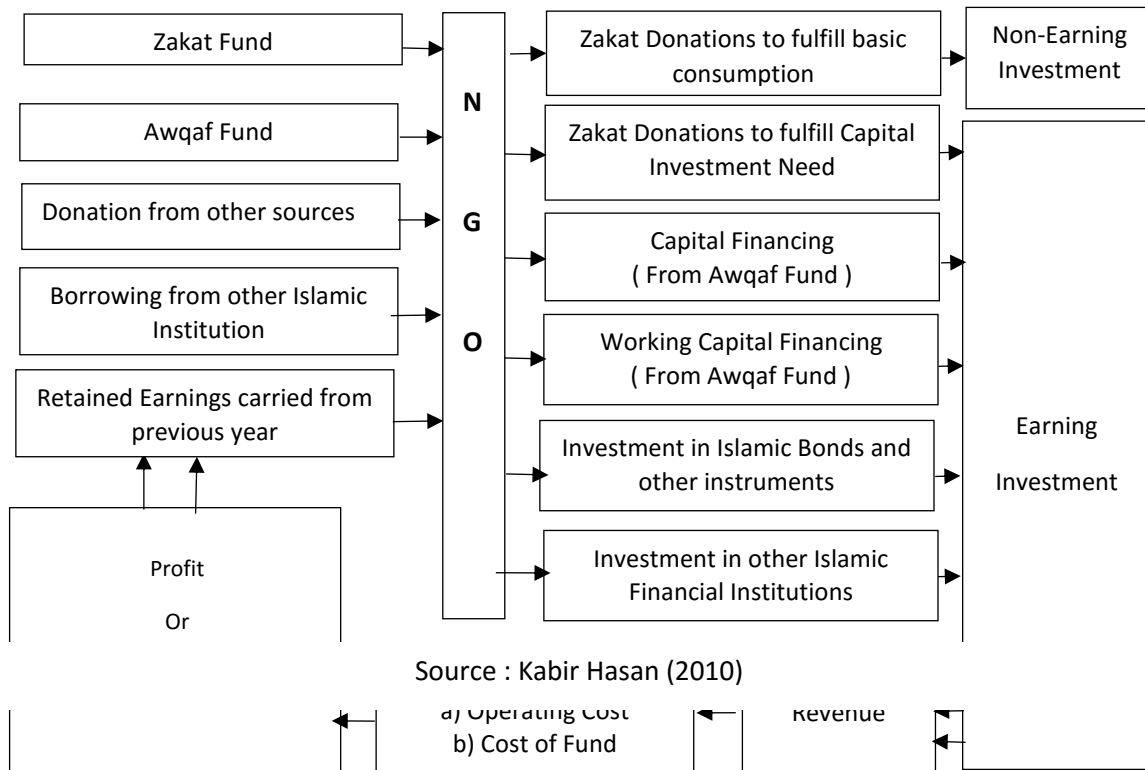
Basically, there are not much differences between *waqf* real estate and conventional real estate in general characteristics. The significant differences it has are in terms of the value, highest and best use of the real estate, and the perception of the public about the development potential behind *waqf* real estate. The concept of highest and best use is towards sustainable development in which both conventional and *waqf* real estate, play vital roles to ensure that optimum returns could be achieved. The brief discussion on *waqf* real estate reveals that optimization entails combining the permissible of *waqf* real estate uses to produce the highest returns which is vital to the *waqif* deeds. Structurally, a discussion of challenges on *waqf* real estate done by various scholars resulted in the following proposals: cash *waqf*, *waqf* bank, microfinances, faith-based model, *sukuk*, *sadaqah*, and CSR to develop *waqf* real estate.

### **Alternative Models in Synergizing *Waqf* and *Zakat***

Previous discussion has justified that synergizing *waqf* and *zakat* has attracted many scholars to venture in the formulation of a veritable framework to illustrate the outcome. Several models were proposed, among them is one by Kabir Hassan (2010) that *zakat* and *waqf* along with the evolving concepts of Islamic microfinance are more focused on NGO (non-governmental organizations) participation. In this model, the respective NGO should focus primarily on developing micro-business among the poor to enable them to attain a sustainable income growth and eventually get out of the poverty trap.

Kabir Hassan suggested that the NGO involved provide credit for micro businesses using two traditional Islamic tools such as *zakat* fund and *waqf* fund in an institutional set-up. As the model is based on profit sharing and concessional contract modes, distribution of earnings should be allocated among different stakeholders such as depositors, shareholders, and investors in the NGO. The proposed model will be financially viable and sustainable in the long run, resulting from lower default rates but reduction in the proper use of *zakat* funds, which do not require any return. This will create a win-win situation for all stakeholders. Successful NGOs like Grameen Bank have shown that even though there are such risks, micro-finance can also be used to create and sustain successful businesses (Hassan, 2010).

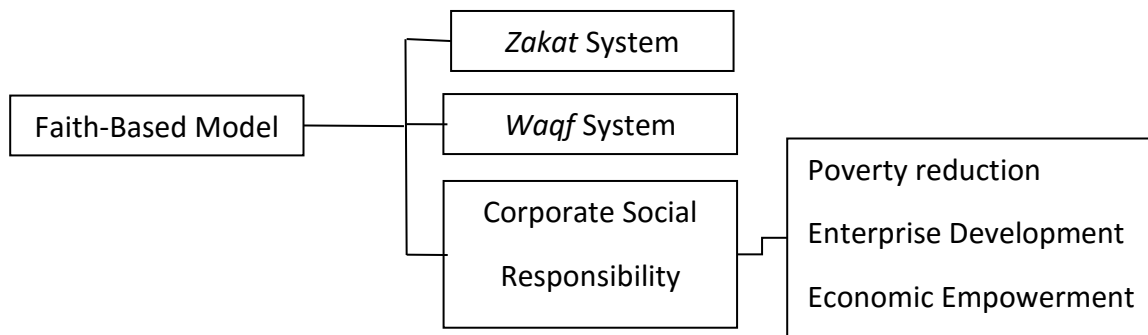
Figure 1 : Fund Management Model



In addition, another model introduced by Nu et al. (2014) is a clinic model that integrates three traditional Islamic tools such as *waqf*, *zakat* and *sadaqah*. It is believed that this clinic model can contribute towards medical expenses paid by *asnaf*. Ever increasing medical expenses have shuffled poor people all around the world. Therefore, this clinic model is very suitable to be implemented for *asnaf* health development. It is also a comprehensive model to increase fund allocation when there are very limited donors for *waqf*, *zakat* and *sadaqah*.

Strategies to enhance the integration of *waqf* and *zakat* using Corporate Social Responsibility (CSR) based on faith-based model was introduced by Raimi et al. (2014). In Figure 2, Raimi highlighted the practice of CSR in the field of management and Islamic economics. Faith-based model (FBM) is a pragmatic model when operational activities help resolve issues of non-compliance with CSR principles. In this model Raimi linked the two traditional methods with modern dynamic concepts that comply with the sharia principles. Evidently, in this model Raimi used training, micro-credit support for SMEs, apprenticeships, providing welfare support services to the poor, marginalised communities and other economically disadvantaged groups. The similar concepts shared by Raimi and Kabir Hassan in using microfinance or micro-credit in *zakat* and *waqf* integration give significant value that the needy will use the fund for business.

Figure 2: Framework of the Faith-Based Model (FBM)



Source: Raimi *et al.* (2013)

It has conclusively been shown by Ahmad Bello, (2009) that every single thing has to start with the organization itself. It is a need for reform in *waqf* and *zakat* management by addressing the unsettled issues inherent in the institutions. The management of the institutions have capabilities and potentials to implement the integration of *waqf* and *zakat* if only they have awareness on the significance of these approaches. Ahmad Bello recommended that this integration can best be treated under three headings which provide the material infrastructure from *waqf* concept and create a source of revenue for use in the form of *zakat*. Other authors (see Gustina & Ihsan, 2010; Amuda, 2013; Shirazi, 2014) also study the usefulness of integration using such an approach.

Contemporary integration regarding *waqf* and *zakat* is aimed at strengthening social constructs by providing support to empower *asnaf*. With regards to the various models introduced by many researchers like Faith-Based Model, Fund Management Model, Clinic Model and others, the contribution is to serve a group of *asnaf* with differing needs. The most important of these integrations is to carry out the systematic management on *zakat* and *waqf* institutions to provide an accurate measure of distribution of the sources. The basis for *zakat* and *waqf* are contained in the various statements from Allah as decreed in Al-Quran.

### Strategic Integration

Strategies to enhance performances of an organization might involve strategic integration that will impact managerial styles (Gunnigle, Turner & Morley, 1998). *Waqf* and *zakat* institutions in Malaysia are generally operating under different objectives which, in spite of similarities to provide aid to the needy, also comprise special cases whereby the fragmentation produced are different. Strategic decisions are those choices made by managers that commit important resources influenced by the managers' prior knowledge and experience (Shepherd & Sharfman, 2011). Management of *waqf* and *zakat* in Malaysia is not only determined by management in the institutions but rather is guided by the *fatwa* for decision making. In strategic management the role of middle managers in influencing the processes and outcomes of strategic change seems well established (Huy, 2011). In SIRC management we can interpret that the operation management is the middle management in the organizations. The fact remains that individual managers' experience is important to support the new strategy driven by changes (Huy, 2011).



The field of strategic management has assumed that managers significantly influence firm behaviour and this will affect the psychological factors and background characteristics that can influence managers' strategic choices (Delgado-garcía, Manuel, & Fuentesabaté, 2010). The objectives of this integration of *waqf* and *zakat* are influenced by the managers' backgrounds, perspectives and emotions. The findings in literature indicate that decision by managers are influenced by their experience and background. The cognitive function in people's decision are very important in influencing any decision.

### Research Methodology

This research adopts a qualitative research method relying on secondary data sourced from previous scholarly works, working papers, case studies and relevant internet resources. The research will mainly adopt library research in providing a sound legal theory of management and fatwa under Islamic law. It is believed that the findings of the research will provide a clear guideline relating to the role of fatwa and mufti in contemporary Muslim society that will benefit the fatwa institution in Malaysia in particular and the public at large. In line with methodological approach of qualitative research, the data was subjected to content and thematic analyses from which facts were derived to support the conceptual framework in synergizing *waqf* real estate and *zakat* through strategic integration for *asnaf*. This approach aligns with steps in content analysis addressed by GOA (1989). In developing content analysis steps, GOA focused to determine what material should be included in content analysis, develop coding categories, code the material then analyze and interpret the results. The outcomes of the data analysis represent the continuous process of coding and categorizing then returning to the raw data to reflect on the initial analysis (Erlingsson & Brysiewicz, 2017).

### Maps of Conceptual Framework

A map of conceptual framework is the researcher's map in pursuing the investigation on their study (Regoniel, 2017). The aim of the conceptual framework is to develop possible ideas that merge from the literature review and theoretical framework. A content analysis of the sourced data revealed that the decisions by managers are influenced by background and experience of the managers. According to Thompson, J. and Martin (2010) the process of strategic management lists what steps the managers should take to create a complete strategy and how to implement that strategy successfully in the organization. Through this conceptual framework in synergizing *waqf* real estate and *zakat* through the strategic integration, the proposal is for the establishment of an operational management.

The integration of *waqf* and *zakat* would develop a project with the criteria complying with the rules of *waqf* and *zakat* fatwa. Therefore, fatwas by muftis provide validity of the projects that integrate *waqf* and *zakat*. Fatwa in general refers to the legal opinion issued by any Muslim jurist (mufti) relating to certain rulings of Islamic law (Rashid, 2015). The use of conceptual framework data has a relatively long tradition within the idea of researcher to study the previous research of integration on *waqf* and *zakat* that is sharia-compliant as well complying with the current theoretical framework.

Conceptual Framework in Synergizing *Waqf* Real Estate and *Zakat* through Strategic Integration

The conceptual framework would be useful in synergizing integration thereby complementing the drive of *waqf* and *zakat* towards actualizing the *asnaf* needs. The integration of *waqf* and *zakat* must learn to adapt and assimilate values that align with their strategy. Referring to the literature review by various researchers, the researcher came out with an idea of integrating *zakat* and *waqf* to be formulated with another new approach. The integration should blend with economics, investment and welfare objectives to enable development of best practice framework. The existing integration of *waqf* and *zakat* has been promoted by other countries, especially Bangladesh but the development is not really helpful in eradicating poverty in Bangladesh. In this research, the researcher wants to explore the range of added values in Malaysia if the integration efficiency shows Malaysia could eradicate poverty using this traditional method. Previous researchers have attempted to describe the significance of a study by enhancing *waqf* and *zakat* performances with another variable. It can be microfinance as a tool to integrate *waqf* and *zakat*, corporate social responsibility, cash *waqf* and others. This research suggests that the integration of *waqf* and *zakat* could be a way of nurturing the tools by using strategic management. Strategic management practices have been widely used by the association. Some organizations' strategic plans, with different frameworks for objective-setting, strategies and actions have struggled to take hold in strategy. These are also why managers, directors, CEOs, consultants and academics have to be careful about how they express themselves in this area if they are to remain credible as strategists (Kenny, 2013).

Thus, a reasonable approach to tackle this issue may be the integration of *zakat* fund as one of the solution to cater to the funding problems. The backbone of *zakat* fund is the distribution among people of the following categories stated in (Quran,9:60), depending on need. Since this distribution of *zakat* has not been found elsewhere, it is strategic to enhance the quality of life among the needy. The *zakat* conditions identified for this purpose is raised in accordance with Sharia Law. This theoretical research sets out to integrate *waqf* real estate and *zakat* components for poverty reduction. In line with the set objectives and conclusions from the reviewed literature, two research propositions were developed. In clear terms, the research linked the *waqf* real estate and *zakat* components with Thompson's and Martin's Strategic Management Framework. This is achieved by content analysis, specifically by looking at the philosophy of *waqf* and *zakat*.

Strategic management process framework promotes a systematic approach to strategy formulation that is rooted in the mission, or purpose, of the organization; and tests the implementation choices and actions of the firm against that mission. Figure 3 introduced Thompson, J. and Martin strategic management theory: awareness & change by establishing a framework called Strategic Integration of *Waqf* Real Estate and *Zakat* for *Asnaf* Development Project.

Figure 3: Strategic Management Process Framework

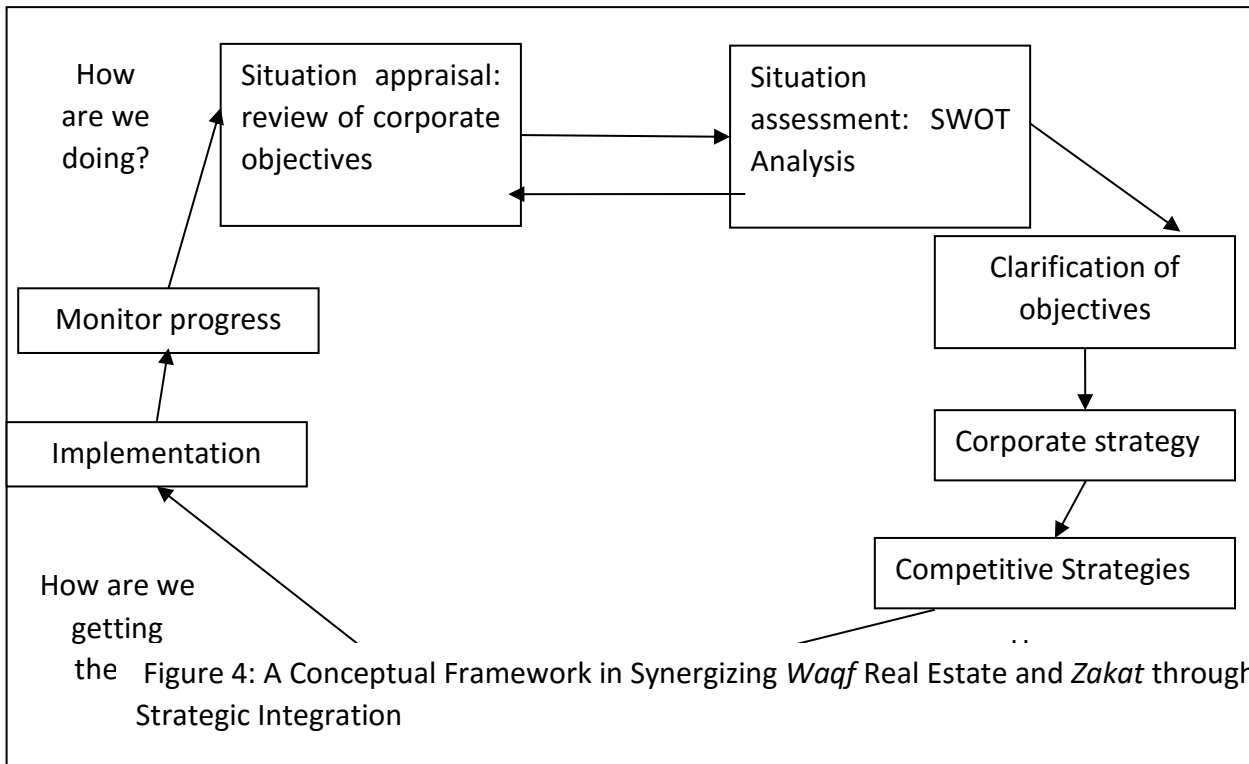
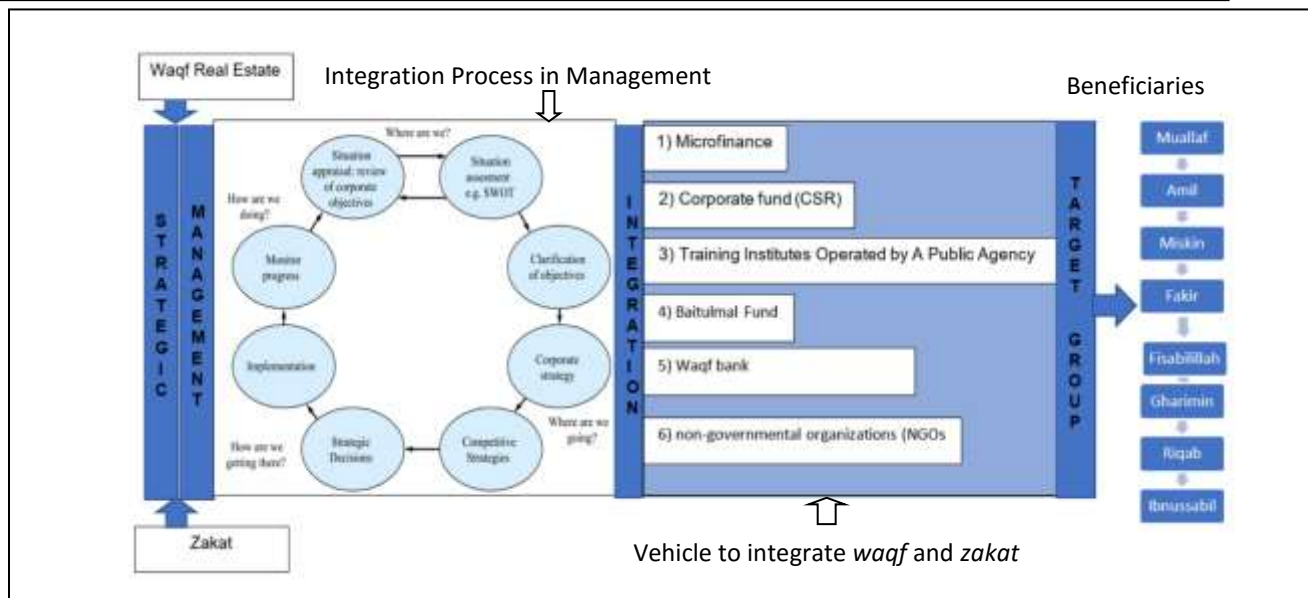


Figure 4: A Conceptual Framework in Synergizing *Waqf* Real Estate and *Zakat* through Strategic Integration



Source: Researcher (2017)

**Conclusion, Implication and Recommendations**

This theoretical research sets out to integrate *waqf* real estate and *zakat* with microfinance, CSR, training skill provided by public agency, baitulmal fund owned by SIRC, *waqf* bank to create cash *waqf*, and cooperation from NGO for poverty reduction, enterprise development and economic

empowerment in Malaysia. In line with the set objectives and conclusions from the reviewed literature, two research propositions were developed. In clear terms, the research linked the *zakat* fund, *asnaf* and *waqf* real estate with a third element as a vehicle to boost the integration. This is achieved by content analysis, specifically by looking at the philosophy of strategic management and integration theory suitable with the Islamic concepts of *Waqf* and *Zakat*. At the end, the paper justified the potential of this framework as a comprehensive social integration, which could be deployed to poverty reduction in a number of ways ranging from training, microfinance support, providing welfare support services to the poor, marginalized communities, and other economically disadvantaged groups.

This paper is a contribution to the theory and practice of *waqf* and *zakat* in the field of management and Islamic economics. Synergizing *waqf* real estate and *zakat* through strategic integration is a dynamic relief for *asnaf* values. The paper has also situated a few instruments within the realm of worship and faith. The gap left behind by the paper is for future researchers to carry out an empirical investigation on the viability of such integration.

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