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The Possible Role of Waqf in Ensuring A Sustainable Malaysian Federal Government Debt

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Abstract

This paper attempts to investigate waqf as a possible instrument to reduce the Malaysian Federal Government debt. The latest Malaysian federal government debt to gross domestic product (GDP) ratio is 54.47%; more than the 50% threshold for developing economies. This increasing debt level will hurt the economy in the long run. In an effort to reduce the debt, the Malaysian government is presently selling government assets and reforming the taxation system i.e. by introducing Goods and Sales Tax (GST) on 1st April 2015. We however notice that there is an alternative solution from Islamic economics which complies with the Shari'ah law. The alternative is waqf. This paper provides a conceptual framework of the possibility of waqf with respect to its role in federal government debt sustainability. Firstly, the aspect at which waqf can contribute to federal government debt reduction is presented. Secondly, the study discusses the Shari'ah law of waqf, its contemporary issues and the management of waqf in Malaysia. Since Malaysia is a multi-religion society consisting of Muslims and non-Muslims alike, we also analyse the Shari'ah law of waqf pertaining to the non-Muslims. Finally, this paper offers suggestion of a waqf model that may be able to manage and control the federal government debt from ballooning.

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1. Introduction

The debt to GDP ratio and its threshold are useful in projecting the sustainability of an economy's debt. For a developing economy like Malaysia, the debt to GDP ratio threshold of 50% strongly suggest unsustainability

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(Akyuz, 2007; International Monetary Fund (IMF), 2003). Figure 1 depicts the movement of federal government debt to GDP ratio from years 2008 to 2014. The data were gathered from the April issue of Monthly Statistical Bulletin Bank Negara Malaysia (BNM), the country's central bank.

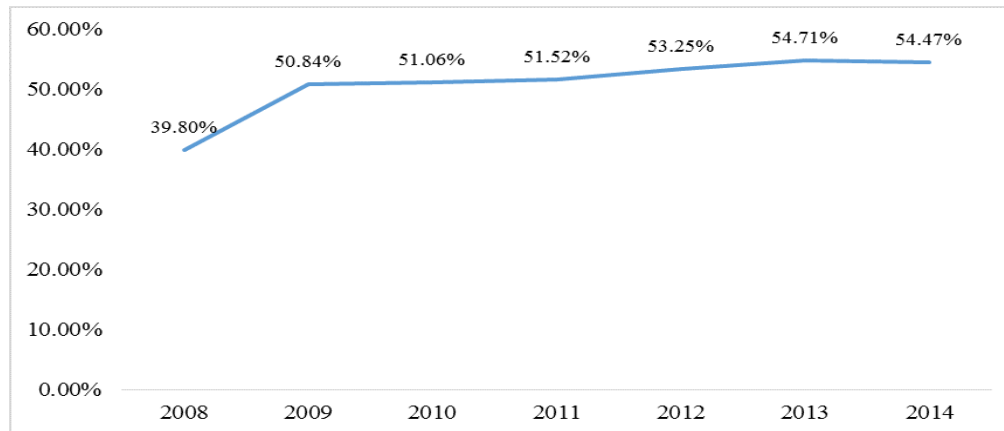


Fig. 1. The Malaysian federal government debt to GDP ratio

The impact of global economic crisis in 2008 resulted in an increase of debt to GDP ratio from 39.8% to 50.84%. This was a result of two approved stimulus packages to “protect jobs, provide skills training and re-training, facilitate private sector activity as well as ease the burden of vulnerable groups” (Ministry of Finance, 2009, p.85). Since then, the Malaysian debt to GDP ratio has went above the 50% debt to GDP ratio threshold despite a slight drop between years 2013 to 2014.

To guarantee a sustainable Federal Government debt, the government has initiated the Fiscal Transformation Programme (FTP) consisting of several initiatives (Ministry of Finance, 2014). One such initiative is the Goods and Services Tax (GST) aimed to increase the tax revenue. GST does this in two ways. Firstly, it replaces the double taxation previously imposed and secondly, its implementation also affects the goods and services that were not affected by previous imposed taxes. The latter however caused a public outcry and political dissent. This is further fuelled by the fact that GST affects all economic classes of income. It is crucial therefore to conduct further research on more viable options that can cater the public welfare and simultaneously realise a sustainable Federal Government debt.

This paper intends to argue that waqf can be a possible alternative to GST. The arguments are presented in six main headings. Section 2 discusses the definition of waqf, Shari’ah principles of waqf, and several Shari’ah issues. To see the practical use of waqf from the socioeconomic perspective, section 3 presents the history of waqf beginning from the Prophet Muhammad peace be upon him (pbuh) until the period of the Ottoman Empire. In addition, the revival of waqf in contemporary times is also highlighted. Since this study focuses on Malaysia, a subsection is devoted to the discussion on the Malaysian waqf scenario as well. Section 4 argues the relevance of waqf with Federal Government debt sustainability. In Section 6, the literature gathered from Section 2.0 until Section 4 are further synthesized to produce a waqf model that can help achieve sustainable Malaysia Federal Government debt. Section 6 concludes this study.

2. Waqf and its Shari’ah Law

2.1 Definition of waqf

Waqf or its plural awqaf, literally means “hold, confinement or prohibition” (Kahf, 2015, p.2) while technically means “holding certain property and preserving it for the confined benefit of certain philanthropy and prohibiting any use or disposition of it outside that specific objective” (Kahf, 2015, p.2). According to Çizakça (1998), waqf is also called boniyad or habs in Iran and North Africa respectively. On top of that, it must be understood that the act of

waqf was not sourced directly from the Quran but originated from the traditions of Prophet Muhammad pbuh (Çizakça, 1998; Babacan, 2011).

2.2 *Shari'ah laws of waqf*

There are various traditions of Prophet Muhammad pbuh or Hadith that describes waqf. The most frequently cited is presently below:

Ibn Umar reported: Umar acquired a land at Khaibar. He came to Allah's Apostle (may peace be upon him) and sought his advice in regard to it. He said: Allah's Messenger, I have acquired land in Khaibar. I have never acquired property more valuable for me than this, so what do you command me to do with it? Thereupon he (Allah's Apostle) said: If you like, you may keep the corpus intact and give its produce as sadaqah. So 'Umar gave it as sadaqah declaring that property must not be sold or inherited or given away as gift. And Umar devoted it to the poor, to the nearest kin, and to the emancipation of slaves, aired in the way of Allah and guests.... (Sahih Muslim, Hadith no:4006)

In the *Hadith*, Umar had converted his land into waqf by handing its produce for the above mentioned philanthropic purposes. At the same time, Umar prohibited the land from being sold, inherited nor be given away. Hence, waqf is also classified as a continuous charity which benefits Muslims even after death. It was narrated from Abu Hurairah that the Messenger of Allah said, "When a man dies all his good deeds come to an end except three: ongoing charity (sadaqah jariyah), beneficial knowledge and a righteous son who prays for him" (Sunan An-Nasa'I, Hadith no: 3681).

It is imperative to note that the creation of waqf must align with what Islam permits. In other words, the creation of waqf to promote pornography, black magic, deviant teaching etc are strictly prohibited. This also means that the payment of interest alongside the principle payment of debt that government nowadays pay violates the Shari'ah law.

Taking this into account, the literature thus classifies two types of waqf; public or charity waqf and private or family waqf (Babacan, 2011; Kahf, 2014). Public waqf are founded to cater for social needs and economic services while private waqf are founded to provide for the founder's descendants and lineage. The components, pillars, and principles of waqf are detailed respectively below. To properly adopt waqf as a tool in ensuring sustainable debt, these aspects must be adhered.

Four major components are needed to make up a waqf. These are the founder or wakif, the beneficiaries or mawquf'alaih, the trustees or mutawalli or nazir or wasy, and the entity of waqf itself or mawquf (Çizakça, 2000; Yayasan Waqaf Malaysia [YWM], 2015; Kahf, 2015). Basically, the founder determines what kind of entity that he or she wants to convert into waqf and who will be the beneficiaries of the waqf revenue. Meanwhile, the trustees are the managers of waqf. Their duty includes distributing waqf revenues to the beneficiaries, preserve the waqf entity, and maximize the revenue of waqf according to the Shari'ah law (Kahf, 2015). The waqf entity which is the corpus, must be privately own by the waqf founder (Çizakça, 2000).

There are four pillars of waqf namely the founder, the entity of waqf, the beneficiaries, and the statement of waqf (sighah) (YWM, 2015). Details of the conditions are copied from the "Introduction of Waqf" page from the YWM website and are stated in the following. There are four conditions for the founder which are (1) the asset that (s)he wants to turn into waqf must be completely owned by him or her, (2) sound mind and sane, (3) baligh or have reached puberty, and (4) waqf is made voluntarily without any coercion. There are also four conditions for the entity of waqf or mawquf which are (1) benefits can be derived from the mawquf, (2) the mawquf must have a price value, (3) the mawquf must be completely owned by the founder, and (4) the mawquf does not violate the Shari'ah principles. Meanwhile, the conditions for the beneficiaries are (1) Muslims, non-Muslims that is peaceful towards Muslim, as well as free (wo)men, and (2) the derived benefit from waqf can enable the beneficiaries to get closer to ALLAH and is for the interest of Islam only. However, the frequently asked question (FAQ) section of YWM states that the conditions for beneficiaries are private beneficiaries and public beneficiaries instead. This is similarly stated in the webpage of Jaffaria Waqf Directorate. Lastly, the sighah must be done explicitly or implicitly.

According to Babacan (2011) and Kahf (2015), there are two principles of waqf which are perpetuity and irrevocability of the terms set by the waqf founder. The former principle means that when an entity is declared as waqf, it will remain as waqf forever. This principle is one of the strong points that make waqf a suitable tool for

fiscal policy as no one can obtain the waqf entity for personal use. Meanwhile, the latter principle means that terms set by the founder cannot be altered so long as the terms do not contradict any Shari'ah rulings. For instance, if the founder entrust the waqf revenue be given to orphans, then the mutawalli(s) must only channel the revenue to orphans. In this case, giving away revenues to single mothers, disabled children and other beneficiaries violates the principle of waqf.

2.3 Shari'ah issues of waqf

However, there is a need for further analysis on some aspects on the Shari'ah law of waqf. This is mainly due to several current socioeconomic issues that were not addressed in past encyclopedias of Muslim scholars. Moreover, strict obedience to the principles of waqf could hinder further charitable acts in the long run. Kahf (2014) had listed and argued on these aspects which are (1) temporality of waqf, (2) waqf of usufruct and financial right, (3) family waqf, (4) ownership of waqf properties and its legal entity, (5) special conditions of the waqf founder, (6) details on waqf governance, as well as (7) zakah and tax privileges of waqf properties and their revenues.

Still, not all of the aspects stated above are within the scope of this study. There is no issue with respect to aspect (1) since it is the principle of perpetuity that triggered the study of waqf usage in modern economy, not temporality. More on this is mentioned in Section 4. Aspect (3) is irrelevant because this study concerns with public waqf. Thus the aspects that correlate directly are (2), (4), (5), (6), and (7). These are covered respectively in the following.

Examples of waqf of usufruct and financial right given by Kahf (2014) are waqf for highway tolls, and waqf for patents and intellectual rights respectively. However, only the Maliki School recognises these as waqf despite the inherent productive potentials of these entities. Aspect (4) is ownership issues. Although Muslim scholars assert that the corpus of waqf belongs to ALLAH, extra measures are still required for a number of reasons. These include protection from personal use and corruption, as well as to guarantee that its revenue is only channeled to the rightful beneficiaries. Thus Kahf (2014) concluded that:

Waqf properties require a special kind of judiciary person, or an amended legal entity in which, unlike other corporations, the properties are not to be disposed of by the corporation. In other words, the legal entity of awqaf should be allowed only to undertake certain contract and legal actions; those which relate to investment of assets, maintenance, and distribution of income and usufructs. But it should not be allowed to take up other kinds of contracts and legal actions that infringe on the principle of perpetuity, continuous growth and accumulation and the distribution as prescribed by the founder (p.225).

Aspect (5) however, is controversial but important to be considered. As argued in Kahf (2014), these special conditions are the right for the waqf founder to be the main beneficiary when (s)he is in hardship, the right to cancel his or her decision on initiating a waqf, and the right to annul the corpus of a waqf after it has fulfilled its purpose. These special conditions can help to reduce the sacrifice that a founder must partake thus can help promote waqf to society. Aspect (6) mainly concerns about corruption. This was one of the reason behind the decline of the Ottoman's waqf system (Babacan, 2011). Hence in order to revive the system of waqf, steps should be taken to ensure its transparency. Examples suggested by Kahf (2014) include reporting, monitoring and setting of performance standards.

Aspect (7) plays a major role in encouraging individuals to contribute waqf. In addition to that, capital accumulation of waqf will be possible too. This can be achieved by granting tax exemption and zakah privileges. However, Babacan (2011) argued that this could reduce tax revenue. When observed roughly, this reduction in tax revenue will decrease the fund that the government can allocate to pay down debt. Still, there will also be a lesser need to borrow in the future since waqf is financing for public expenditure. This was why waqf became part of the Ottoman's fiscal system. More on this are discussed in Section 3.1 and Section 4. With respect to zakah, majority of Shari'ah scholars are in agreement that waqf properties are exempted from paying zakah except for the Maliki school who asserts the opposite (Kahf, 2014).

3. Waqf in History and at Present

3.1 *Waqf in history*

Throughout history, waqf was considered as an important tool in the socio economic development of Muslims. These were studied by Kahf (2014). The Prophet pbuh for instance had built al-Masjid an-Nabawi and used fruits from orchards that was left by Mukhayriq to finance for artillery. In addition, Uthman bin Affan had bought a well in Madinah to make drinking water free for all Muslims. Meanwhile during the Abbasid era, there were hospitals financed by waqf. In order to cover the hospitals' operating expenses, the government had even set up a waqf investment fund. Ibn Jubair, the Andalusian historian and Ibn Battuta, the Moroccan explorer had recorded the implementation of waqf in Damascus. The universities in Damascus had given money allowances, servants, medical care, and others to students while there were also waqf for road maintenance, waqf for the poor to go to Hajj as well as getting married. Not to mention, University of al-Azhar was the first university financed by waqf along with its subsidiary of schools all across Egypt. Take notice that most of the awqaf instituted were to cater for public goods.

Despite those evident success, the literature had mostly analysed the practice of waqf in the course of the Ottoman period. In that era, waqf was not only implemented in the socio economic sector, but was part of the fiscal system too. According to Babacan (2011), there are three categories in the Ottoman's fiscal system and waqf was the third. Thus waqf had also been financing the public expenditures of the Ottomans before modern type municipalities were founded. These expenditures included the building of schools, supporting retired sailors, paying for commuter ships, defence of a town, water delivery, paying tax for fellow countrymen, creating employment opportunities, and many others (Babacan, 2011; Çizakça, 1998).

Besides Muslims, non-Muslims of the Ottoman period had also adopted the idea of waqf. Shaham (1991) reports that the Jewish' Hekdesh and the Christians' Piae Causea are forms of pious endowment that are relatively similar to waqf. Even though these institutions existed in their tradition, the Christians and Jews of the Ottoman period had practiced waqf instead. These awqaf are in the forms of warehouses and shops in the market place, houses, apartments, orchards, and vineyards (Shaham, 1991).

Nonetheless, there were also weaknesses in the Ottoman's waqf implementation leading to its decline. Çizakça (1998) claims that while cash waqf were only focused on capital distribution and disregarded capital accumulation, it was also interest bearing. The study done by Balla and Johnson (2009) concluded the same result. When the fiscal crisis had erupted in the seventeenth century, the negligence of capital accumulation by the Ottomans had "kept fiscal agents from organising in large enough number to constraint the Sultan" (p.822). On top of that, its decline was also due to corruption and the formation of family waqf. Corruption ensued when the waqf system was centralised by the government, resulting in expensive transaction cost, embezzlement, and waqf fund was forced to be loan out to the state (Çizakça, 2000). Family awqaf on the other hand, did not provide many public goods thus were further eroding the Ottoman's tax base (Babacan, 2011).

3.2 *Waqf at present*

In comparison to the past, awqaf currently do not constitute a major role in the economic development of Muslim countries. This is because the current practice of waqf are only for religious and charitable purposes without giving any benefit to a country as a whole. For instance in Bangladesh, 50% of waqf consist of public waqf while the other 50% consist of family waqf (Waqf Bangladesh, 2015). In Brunei, waqf mainly funds religious institutions such as mosques (Kementerian Hal Ehwal Ugama Negara Brunei Darussalam, 2015). In Pakistan, the Auqaf and Religious Affairs Department grants academic scholarships, maintains the upkeep of holy places and monuments as well as manages a single hospital and 14 other dispensaries (Auqaf and Religious Affairs, 2015). These dispensaries provide free of charge medical attention to the poor. Çizakça (2000) blames these narrow purposes and benefits of waqf primarily on secularism and imperialism. Despite these facts, the revival of Islamic economics has encouraged several Muslim countries to pursue a waqf reform.

One significant waqf reform occurred in Turkey when the 13 July 1967 law was passed (Çizakça, 2000). There are eleven stipulations in the law and three became the basis for the modernisation of waqf. The first is tax exemption can be granted to those who contribute 80% of its revenue for public services. In other words, companies that were

initially built for the purpose of waqf are eligible for tax exemption. The remaining two stipulations allow for a waqf to establish a company and a company to establish a waqf. These three stipulations have solved the capital accumulation problem that the Ottomans had previously faced. To be specific, both tax exemption and purchasing of company shares enable more waqf profit be retained and generated continuously.

Currently, the Directorate General of Foundations is responsible for the management of awqaf in Turkey (The Directorate General of Foundations, 2015). Under its stewardship, numerous waqf properties has been restored to generate income. Examples include hotels, bazaar, factory, thermal spring, cultural commercial facility, student residence, and industrial plant etc. In addition to that, the Directorate maintains archives of Turkish waqf records dating as far back as the year 1048.

The restoration of waqf soon ensued in other Muslim countries. Being the largest Islamic country, Indonesia views cash waqf as a potential to improve welfare. According to the Hukmi (2015), the collection of cash waqf shows an increasing trend between the years 2007 to 2010. In addition to that, the socio economic benefits of waqf in Indonesia are evident, channelling funds to finance hospitals, universities, shops, schools etc. For record purposes, Indonesia has also compiled data on waqf land all over the country. Recognising the potential of socio economic activities, India has taken progressive steps toward waqf development. The Waqf Management System of India and Waqf Records Computerization Project have compiled data on the waqf properties that are scattered throughout the country. This effort is also for the purpose of record keeping and transparency. As a result, the Central Waqf Council is able to provide financial assistance to numerous educational programs, develop waqf properties to generate income, and initiate other welfare projects.

3.2.1 Waqf in Malaysia

The former Malaysian Prime Minister, Tun Abdullah Ahmad Badawi had taken the first initiative by introducing waqf as an economic tool in the country. As stated in point 70 of his speech during the launch of the ninth Malaysia plan:

Meanwhile, we will continue to develop sources of capital for Bumiputera, for example land and *wakaf* assets currently under the state of Islamic religious authorities. The state Islamic religious authorities need to shoulder the responsibility of *fardu kifayah*, play an active role to develop the economy of Muslims and assist in the development of human capital (p.36).

Aside from the State Islamic Religious Councils (SIRCs) or Majlis Agama Islam Negeri (MAIN), two government organisations namely Department of Awqaf, Zakat and Hajj (JAWHAR) and YWM were also appointed to assist with the waqf development. Thus, Malaysia has a centralised waqf management. Figure 2 illustrates the Malaysian waqf system.

Basically, any Islamic religious matters are under the responsibility of the Malaysian Sultanate. In turn, the Sultanate had appointed MAIN to handle these matters including waqf. Thus MAIN acts as the sole trustee of and are responsible to manage their respective state's waqf assets. On the other hand, YWM was established by JAWHAR and operates to accomplish several objectives. (1) To develop waqf assets all over Malaysia with the assistance from MAIN, (2) to use waqf properties for the betterment of economy, education, social and the welfare of Muslims, (3) to generate revenue from waqf capital, (4) to solve socio economic imbalances between Muslims, and (5) to fulfil the trust of waqf founder. Meanwhile, JAWHAR is a department under the Federal Government whose duty is to “ensure that the management and administration of waqaf properties, zakat and hajj are in order, systematic and effective”.

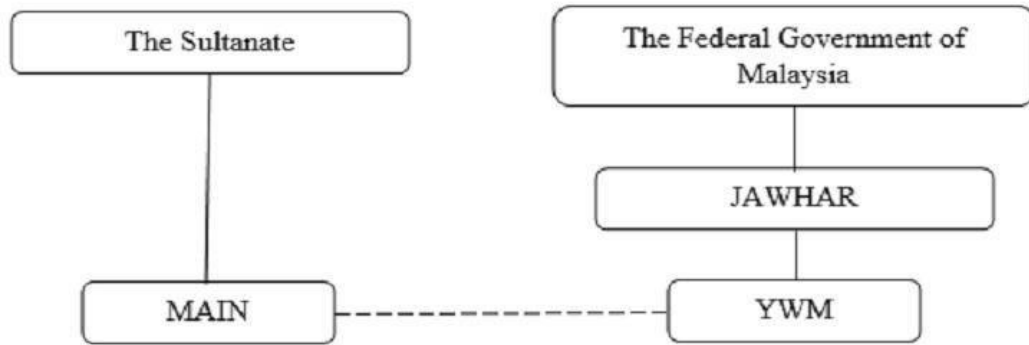


Figure 2. The Malaysian Waqf System

Despite the fact that the Malaysian waqf system is centralised, there also exist non- governmental organisations (NGOs) of waqf. These researchers are unable to find a complete list of the NGOs of waqf hence only two are discussed here. These NGOs are Persekutuan Waqaf Malaysia (PWM) and Wakaf Enterprise Rumah Pengasih Warga Prihatin (WERPWP). PWM aims to bring back the waqf tradition amongst Muslim Malaysians, give assistance to those who are interested in doing waqf, become the source of reference about waqf in Malaysia as well as in other countries, and conduct research and provide for consultation on waqf (PWM, 2015). Meanwhile, WERPWP is founded to help finance the expenditures and the aspirations of Rumah Pengasih Warga Prihatin (RPWP), a big family of asnaf and a research centre on the fundamental science of Quran and Sunnah (Warga Prihatin, 2015).

The purpose of waqf creation in Malaysia is to cater for the Muslim's welfare as well as to develop the economy of Muslims which are obviously permissible. The website of JAWHAR has a record on the list of waqf land that was developed in various states of Malaysia. A number of examples include hostels for student, hotels to increase the level of Muslim employment, housing units at low prices, centre for new Muslim converts, medical centre for haemodialysis, business premises for Muslim entrepreneurs, and others.

In Malaysia, the founder of waqf can be either Muslim or non-Muslim. To restate, the religion of the founder is not regarded as one of the conditions in the validity of waqf. For instance, the SIRC of Negeri Sembilan allows for non-Muslims to contribute cash waqf and the Selangor Waqf Enactment no. 7 of year 1999 part 2 allows non-Muslims to convert his or her assets into waqf within the Shari'ah framework. On the other hand, the trustees of waqf are only constraint to MAIN of each state as was mentioned previously. However, should a person contribute cash waqf through YWM, the trustees also include the Minister at the Prime Minister's Department, the Director General of JAWHAR, the President of Yayasan Kepimpinan & Strategi Malaysia, the Shari'ah Advisor of the Attorney General Chamber, and Tajdid Director of the Muslim Welfare Organisation Malaysia (YWM, 2015).

PWM states that there are various assets that can be turned into waqf. These can be categorised into immovable waqf, movable waqf, cash waqf, waqf shares, corporate waqf, and education waqf. At present however, only the first four are available in Malaysia. As suggested by its name, immovable waqf are assets that are immobile such as building and land. Meanwhile, movable *waqf* is the opposite of immovable waqf. Examples include the Holy Quran, books, research instruments, transportations etc.

On the other hand, cash waqf basically means a waqf of cash and is becoming well known in Malaysia as majority of SIRC's including YWM has already introduced cash waqf schemes. They are the SIRC of Johor, the SIRC of Negeri Sembilan, the SIRC of Perak, the SIRC of Kedah, the SIRC of Penang, the SIRC of Perlis, the SIRC of Pahang, the SIRC of Selangor and the SIRC of Kelantan. To ignite public interest, cash waqf through YWM has been given income tax exemption following Subsection 44(11c) in Income Tax Act 1967 (YWM, 2015). Lastly, waqf shares are invested shares producing profit, and the profit is used to finance waqf activities instead of giving it as dividends to investors. To date, only the SIRC of Johor and Johor Corporations (JCorp) offer this type of waqf

thus it is relatively new in Malaysia. Accordingly, all of the proceeds generated from these types of waqf are given to the rightful beneficiaries under the responsibilities of the trustees mentioned earlier.

Up to this point, it is clear that the implementation of waqf in Malaysia only concerns the socio economic development of Malaysian Muslims. This is not at all controversial since waqf was practiced by the Prophet pbuh, his companions, in Muslim empires, and discussed widely in literature by Muslim scholars thus making waqf an element of Islam. However, since Federal Government debt sustainability requires curtailing Federal Government expenditure, waqf that benefits the non-Muslim Malaysians are urgently needed. From the Shari'ah perspective in Section 2.4.4, it is permissible in Islam that the beneficiaries of waqf are also consist of non-Muslims that live harmoniously with Muslims. Thus in the Shari'ah context, it is permissible for non-Muslims Malaysian to be waqf beneficiaries since Malaysians have been living harmoniously together.

Also, the purpose or the use of Malaysian waqf funds are quite restricted. The awqaf are only for building of medical institutions, hostels for students, mosques, shopping lots, and low cost housing but doesn't include other society needs such as power generation, water supply, sewerage services and transportation. To finance these items through waqf is not questionable at all as history had also implemented these. To repeat from Section 3.1, Uthman bin Affan had bought a well in Madinah and turned it into waqf so that drinking water was free for all Muslims while the Ottomans had financed retired sailors, commuter ships, and defense of a town by way of waqf. Thus other *Shari'ah* permissible items in the Federal Government expenditure can also be financed by waqf.

4. Waqf and Debt Sustainability

Section 3.1 pointed out various shortcomings that had led to the destruction of the waqf system in the Ottoman Empire. However, a number of aspects had also brought about the revival of the waqf system. Firstly, Siddiqi (1995) claims that it is the Prophet's tradition to finance an economy using waqf. Section 3.1 had presented how the Prophet pbuh had used fruits from orchards that was left by Mukhayriq to finance for artillery. Secondly, Ottomans had successfully incorporated waqf in its fiscal system and cater its public expenditures for centuries. Thirdly, waqf had financed social needs and cultural edifices for centuries in Islamic history and some awqaf had even survived over a millennia. These three aspects make strong arguments for attaining Federal Government debt sustainability by means of waqf.

Several studies had been conducted in this direction. Çizakça (1998) believes that “the *waqf* system can significantly contribute towards that ultimate goal of every modern economist; massive reduction in government expenditure which leads to a reduction in the budget deficit, which lowers the need for government borrowing...” (p.44). In fact, waqf can assist modern governments to eradicate interest as well as promoting better distribution of income. The researcher believes that this can be achieved by instructing Islamic Banks to combine cash waqf contributed by investors with mudarabah firms or “joint-stock company shares” (p.63). To generalise, the manner at which waqf can assist in curbing unsustainable debt is for waqf to finance public expenditures or at least part of it. This enable the use of more tax revenue to finance the Federal Government debt.

Mohd, Shahida, Abdul and Zaini (2012) argue along similar lines. The researchers proposed cash waqf as an alternative to Bantuan Rakyat 1 Malaysia (BR1M). BR1M is a social safety net that is currently implemented in Malaysia. Given that each Muslim contribute RM1 every week to the cash waqf fund, and the cash waqf fund is invested in mudarabah deposit, sukuk, Islamic mutual fund and Shari'ah compliant stock, researchers simulated that the Malaysian government can save more than RM13 billion in the period of 30 years. In other words, BR1M can be financed by cash waqf instead of tax revenue or government borrowing thus enabling savings. These savings can thus be channelled to pay down debt.

Likewise, these studies done by Çizakça (1998) and Mohd et al. (2012) indicate that waqf can not only reduce public expenditures but at the same time cater for the social needs of a country. This is different from the austerity program that were administered in several European countries that were suffering from debt crisis in year 2008. The reduction in expenditures and rise in taxes had caused a rise in unemployment rates, expensive healthcare services, and others.

This had brought Abdul, Muhammad and Hakimi (2013) to conclude that waqf, among other philanthropy tools in Islam, are able to realise a welfare economy. The researchers explain that unlike conventional motivation of tax exemption, the Islamic concept of philanthropy has spiritual and social justice motivation. These Islamic motivations when nurtured can assist a country to become a welfare economy. However, it is unfair to assume that the non-Muslims participate in philanthropic acts just to get exempted from tax or to gain benefits. Studies had

found various kinds of motivation behind philanthropic acts such as the feeling that a person gets after giving and the impression that an individual is making a difference (Andreoni, 2001; Duncan, 2004).

Thus based on this section's literature review, it is safe to state that waqf has the potential to help governments achieve debt sustainability by reducing public expenditures. On top of that, the implementation of waqf does not necessarily mean a reduction in governments' revenue. The reason being is that the motivation for waqf contribution also comes from spirituality, social justice, and personal satisfaction. In view of practicality, waqf can also hinder government from large sum future borrowing as it finances for most of the country's expenditures. This will bring about sustainable debt. Moreover, the concept of waqf is not entirely alien for the non-Muslims as well. To reiterate, Section 3.1 showed that the Christians and Jews during the Ottoman period had preferred to practice waqf over their own traditions.

5. A Waqf Model for Sustainable Federal Government Debt

It is already evident that waqf has the potential to reduce federal government debt. The implementation of waqf as part of the fiscal system in the past and studies done by Çizakça (1998) and Mohd et al. (2012) had pointed this out. Thus in this section, the literature is further synthesize. Shortcomings from past implementations of waqf is addressed. Improvements to the Malaysian waqf system is proposed. Benefits derived from the implementation of waqf is also highlighted.

To restate from Section 3.1, the shortcomings of waqf implementation gathered from history are four. These are lack of focus in capital accumulation, corruption, interest bearing, and formation of family waqf. To solve the first issue, Mohd et al. (2012) and Çizakça (1998) proposed that cash waqf funds be invested in mudarabah deposit, sukuk, Islamic mutual fund, and Shari'ah compliant stock. A simulation done by Mohd et al. (2012) under a pessimistic scenario had resulted in savings of RM13 billion in the period of 30 years. The simulation was conducted under the assumption that only Muslims contributed to cash waqf funds. Should non-Muslims participate as wakif, the accumulated fund will definitely be higher.

The second issue can be solved by way of law as well as transparency procedures. As was proposed by Kahf (2014) and explained in Section 2.3, the corpus of waqf should be granted a legal entity. This measure can protect waqf fund from exploitation outside its purpose and stated beneficiaries. One classic example of exploitation mentioned in Section 3.1 is being forced to loan out to the state sector. Meanwhile, transparency procedures include record keeping and reporting of waqf statistics as was done by India, Indonesia, and Turkey. To avoid government embezzlement, the board of trustees should also consist of NGOs which will also protect the interest of beneficiaries. With regards to this, organisation that protects the interest of non-Muslims should be made a trustee too.

However, it must be stressed that the purpose and use of waqf fund must not violate the Shari'ah law. Compliance to the Shari'ah law and sustainable Federal Government debt are simultaneously attain by way of channelling awqaf profits to the permissible components of Federal Government expenditure. This is based on the practise of waqf that was part of the Ottoman's fiscal system. Correspondingly, the idle tax revenue can then be used to pay down debt. This is the crux of the waqf model which can curb the rise in Federal Government debt. The rationality of this method can be explained mathematically through the government's budget constraint expressed in Equation (1) below:

$$G_t + (1+r_t)B_{t-1} = T_t + B_t \quad (1)$$

A government collects current tax revenue (T_t) and incurs current debt (B_t) to spend on government expenditures (G_t) and pay for previous debt together with the accrued interest ($(1+r_t)B_{t-1}$). Given that G_t is reduced, more tax revenue can be allocated to pay for $(1+r_t)B_{t-1}$. A decrease in G_t can also result in a decrease in B_t . Thus in both cases, sustainable Federal Government debt are realised.

Aside from strict compliance to the Shari'ah law, other components of the Federal Government expenditure is unsuitable to be financed by waqf. Wakif might not want to contribute to the components that are vaguely descriptive and deemed insignificant. Hence, the components of Federal Government expenditure need to be identified. The breakdowns of the Malaysian Federal Government expenditure is obtained from BNM and illustrated in Figure 3.

To encourage Malaysians to be wakifs of the Federal Government expenditure, four approaches can be of use. Firstly, wakif should be given full or a certain percentage of tax levy. It is important however, that the tax levy granted does not erode the tax base nor being taken advantage of. To the researcher’s knowledge, only cash waqf through YWM has been given income tax exemption following Subsection 44(11c) in Income Tax Act 1967 (YWM, 2015). Malaysia can also emulate the stipulation in the 13 July 1967 Turkish law previously highlighted in Section 3.2. That being the eligibility of tax exemption is only granted to those who contribute 80% of its revenue for public services. In the opinion of this researcher, this stipulation is appropriate for business companies.

Secondly, the government should emphasise that the beneficiaries of waqf will be the Malaysian citizens themselves. Thirdly, the government should exploit studies in altruism and the economics of philanthropy. For instance, philanthropic acts or in this case waqf, can induce good feelings and presents an opportunity for individuals to make a difference (Andreoni, 2001; Duncan, 2004). To gain further confidence, the economic success of waqf in history should also be disseminated. Specifically for Muslims, the government should propagate the Islamic benefits of waqf. Lastly, the government should set a minimum amount of cash waqf that is affordable for everyone. For instance, a minimum of one Ringgit Malaysia cash waqf contribution set by the SIRC of Negeri Sembilan is a reasonable amount.

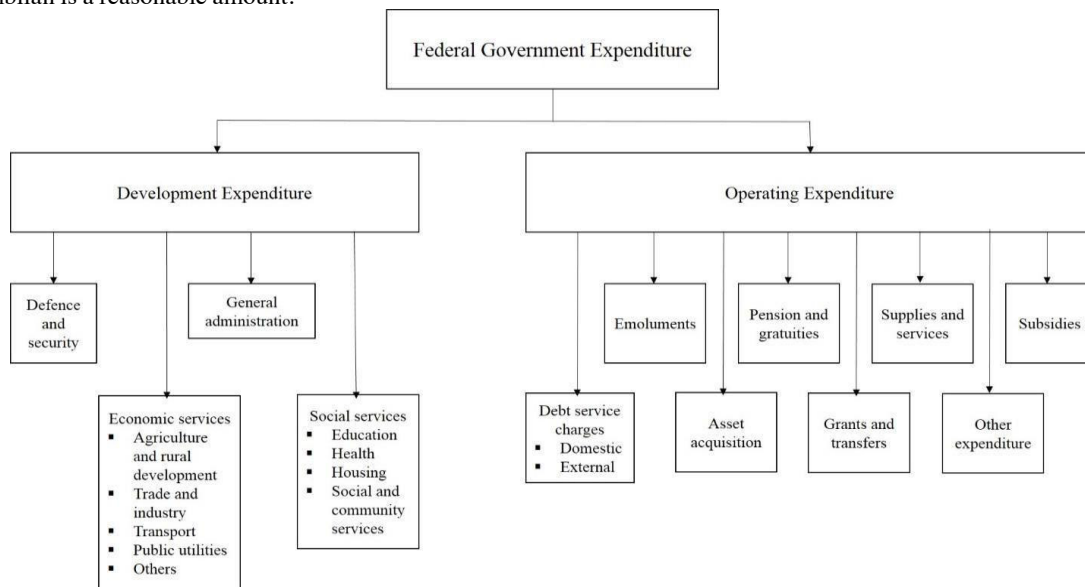


Figure 3. The components of federal government expenditure

Even so, the Gini coefficient in Malaysia as of 2014 is at 0.41, the most unequal income distribution in the Association of South-East Asian Nations (ASEAN) (Kamaruddin, 2015; The World Bank, 2015). Thus one can assume that Malaysia is not lacking in resources but instead are mismanaged and improperly allocated. Regardless, the Malaysians’ upper echelon might contribute a large sum of waqf given proper awareness and incentives. This inadvertently reduce the inequality of income distribution hence transforming Malaysia into a welfare economy. The study done by Abdul, Muhammad and Hakimi (2013) is in support of this assertion. These comprehensive discussion results in a waqf model that is illustrated in Figure 4.

Malaysian citizens is the waqif or the founder in the waqf model. As waqif, they can choose to waqf for the purposes of defence and security, agricultural and rural development, trade and industry, transport, public utilities, education, health, housing, social and community services, pension and gratuities, and/or subsidy. Recognise that these are the components of Federal Government expenditure. Waqif can contribute any forms of mawquf that is deemed beneficial and can indeed help finance the Federal Government expenditures.

In turn, the mawquf will be managed by the SIRCS, YWM, NGOs, the Non-Muslims Waqf Association (NMWA), and the Inland Revenue Board of Malaysia (IRBM). As trustees or mutawalli, these organisations must cooperate to carry out five responsibilities. Firstly, to create awareness on waqf and collect waqf contributions.

Secondly, to ensure the mawqufs are used only for the purposes assigned by the waqif. Thirdly, to ensure the protection of the rights for both Muslims and non-Muslims, as beneficiaries or mawquf'alah. Lastly, to monitor the investment of mawquf so that the Shari'ah law is conformed. For assistance in profitable Shari'ah compliant investments, Shari'ah consultants and investment professionals should be hired under the stewardship of the trustees.

The waqf profit gained after investment should be disburse to the rightful beneficiaries. Next, the amount of taxes available from the remaining components of expenditure is calculated. Hence, the amount available for the payment of Federal Government debt can be determined. This task should be carried out jointly by IRBM and Ministry of Finance Malaysia (MOF). Despite the possibility that the collection of waqf can erode tax revenue, waqf is also financing for most of the Federal Government expenditure. This fact can deter the government from future borrowing or at least from borrowing in large sums. Thus, accomplishing a sustainable Federal Government debt is possible.

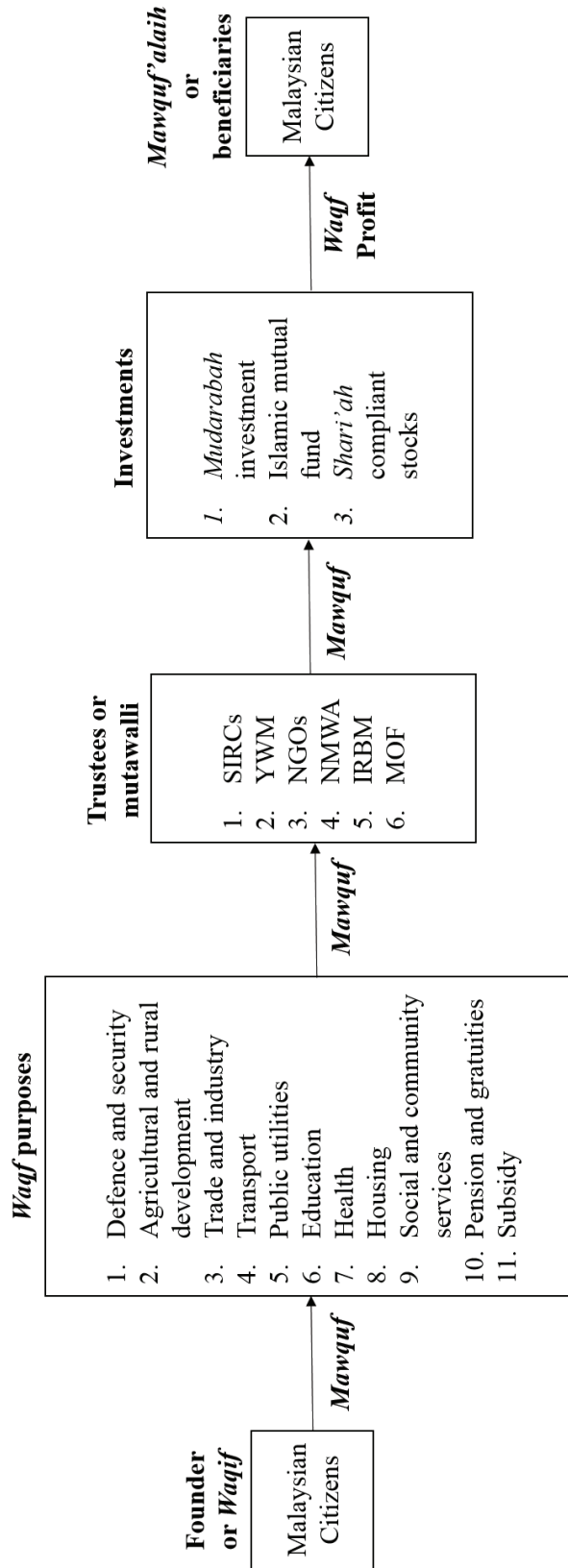
6. Conclusion

This paper had argued and showed that waqf can constitute a possible solution to unsustainable Federal Government debt. By financing most of the Federal Government expenditure, the remaining tax revenue is allocated to pay down debt. Waqf has been known to finance public expenditure in history and more importantly, practiced by Prophet Muhammad pbuh himself. In fact, the Christian and Jewish community that lived in the late Ottoman Empire preferred waqf over their own philanthropic traditions. The Shari'ah law also permits the participation of non-Muslims as founder, trustee, and beneficiaries given strict compliance to the Shari'ah law. Despite several weaknesses posed during the reign of the Ottoman Empire, the modernisation of waqf had helped eliminate most of it. Several conducted research, amended laws, and transparency procedures have helped address these weaknesses.

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Tax Revenue – *Waqf* Profit = Allocation for Federal Government debt payment