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Waqf Efficiency Framework In Malaysia

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Abstract

This paper aims to present a conceptual model on the efficiency of waqf that are responsible in collecting, managing and distributing waqf in Malaysia. Waqf is an Islamic religious collected on the rich and well-to-do members of the community for distribution to the poor and the needy as well as other beneficiaries based on certain established criteria according to the Qur'an. The main aim of waqf is to protect the socio-economic welfare of the poor and the needy. The paper reviews and synthesises the relevant literature on waqf as tool of economy growth for Muslim and its efficiency. The paper then developed and proposed a conceptual model to study the efficiency waqf institutions. The paper identifies the appropriate methods to evaluate efficiency waqf institutions. Such evaluations are crucial for the Islamic financial system to function effectively in order to achieve the noble objectives of socioeconomic justice through proper distribution of wealth. This paper presents a conceptual model of efficiency of waqf institutions which would be useful for further empirical research in this area. The findings are not only relevant and applicable to Malaysia but also to other Muslim countries.

Keywords: Waqf, Islamic Wealth, Justice, Distribution

1. INTRODUCTION

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Waqf is an act of retaining something for the benefit of others. Kahf (1998) clearly defined it as holding and preventing of a Maal (an asset) for the purpose of using the benefits in meeting its objectives of philanthropy. According to fiqh scholars, waqf is to preserve and hold certain properties solely to provide for certain effort of improving the mankind wellbeing and any utilization of it outside of its main objectives are prevented (Zahrah, 2007).

The terminology of *waqf* originates from an Arabic word, which carries the meaning of restrain (*al-habs*) and restrict (*al-man'*). In detail, *waqf* is defined as a form of direct (*sarih*) or indirect (*kinayah*) property dedication in which the property is restrained and its benefits only applicable for general or specific charitable purposes. This means, the rights of the *waqf* founder towards the property is restrained from any kind of business transaction, inheritance, gift (*hibah*) or will. Any type of income, revenue or profit gained from the property under *waqf* must also be spent for the general or specific welfare with the intention of the founder to be closer to Allah SWT. Therefore, the property no longer belongs to the owner, is unreturnable to the former owner and is not able to be possessed by anybody. Generally, *waqf* is classified into two – *waqf khayri* and *waqf ahli*. *Waqf khayri* refers to the *waqf* in which its benefit is dedicated for the use of all groups of society. The purpose of this *waqf* is general (*waqf 'am*). While *waqf ahli* refers to the *waqf* that is set for a specific purpose or group. The purpose of this *waqf* and the target group of receivers are fixed from the beginning, whether it is for family members or a special group of people (*waqf khas*). Whereas *waqf musytarak* is a combination between

these two forms of *waqf*. Part of the *waqf* property is dedicated to family members and another part for the use of the public.

Waqf is defined literally as hold, confinement and prohibition. Technically, it is a sadaqah mechanism that is continuous in nature. Waqf assets must be used within a certain domain of usage according to the specification made by one who contributes the waqf. It cannot be disposed of outside of such purpose (Kahf, 2003; Abul Hassan and Shahid, 2010). Thus, it is understood that any property subject to waqf must not be perishable and they are meant to give constant benefits to the society.

² Generally, waqf is divided into two kinds which are waqf 'amm (general) and waqf khas (specific). It can also be classified as public and private respectively as pointed out by Hassan (2010). The former refers to the dedication in waqf assets for the benefits of the society at large while the latter refers to the dedication of waqf assets for designated purposes or for the benefits to be enjoyed by certain beneficiaries named by the person who gives waqf.

Sabit and Hamid (2006) illustrated the attributes of waqf, which are irrevocability, perpetuity and inalienability. These characteristics indicate that the assets should be held for a long-time purpose and once it is declared as waqf assets, it cannot be revoked. It will belong to the society and usually, a third party will be appointed as the manager who will undertake the responsibility to manage and oversee the waqf assets. Interestingly, the ² characteristics require a higher degree of management so as to ensure the waqf assets could sustain for a longer period of time or it could be perpetual and assure that the benefits would withstand.

² According to Mazrul Shahir (2012) waqf institutions play a pivotal role in enhancing social welfare. He asserts that the management for waqf institutions need to be improved and equipped with modern approaches in order to ensure better and efficient services are provided to the community. It is understood that public services for Muslims can be provided through waqf system. Waqf is seen as the medium for equal distribution and reduces inequity in the society.

The word waqf is an Arabic word which literally means to stop, to hold, confinement or prohibition (Kahf, 2007b, p. 2). It is a singular form, in which the plural form is *awqaf*. In Islamic law literature, waqf denotes holding certain property and preserving it for the exclusive benefit of certain philanthropy and prohibiting any use or disposition of it outside its specific objective (Kahf, 2007b). Kahf further adds that waqf is an endowment of money or property made for benevolent reasons.

Meanwhile Gaudiosi (1988, p. 1234) states that waqf is "the detention of the corpus from the ownership of any person and the gift of its income or usufruct, either presently or in future, to some charitable purpose". She adds that, while "ownership of the waqf property was thereby relinquished by the founder, it was not acquired by any other person; rather it was 'arrested' or 'detained'".

The word waqf has since been widely used not just by Arabs, but also by Muslims from other parts of the world. This has resulted in different transliterations, such as *wakf*, *vakf*, *vakif*, *vaqf*, *wakaf* (Islahi, 2003, p. iii). Waqf is also known with different names, such as *habs* in North and South Africa (Kahf, 2007b) and *qadsh* in Hebrew (Gil, 1998, p. 126).

³ In brief, waqf is a donated property used for the benefit specified by the donor, in which the purpose must be benevolent, normally serving community interests (McChesney, 1991, p. 10). The donor can state his/her intention to do waqf verbally or in writing (waqf deed), although the current practice requires the undertaking to be in writing.

2. ECONOMIES OF WAQF

The question that we may ask is why we classify waqf as economic matters. Let us look at it from the basic premise, that is the definition. This definition could be divided into two, language and scholar perspectives. From a language perspective, as discussed in Ariff (1991), waqf is spelled out as *Waqfun* and formally known as *Waqf-alal-aulad* or religious endowment. Alternatively, it is typically denoted as a building or plot of land devoted for religious or charitable purposes.

Scholars such as Imam Abu Hanifah said that waqf means the detention of specific things in the ownership of waqif and the devoting of its profit, products or other good objects for the poor. Imam Abu Yusuf and Imam Muhammad said that waqf signifies the extinction of the waqf's ownership in the thing dedicated and detention of all the thing in the implied ownership of God. It shows that its profits may revert to or be applied "for the benefit of mankind". Another scholar, i.e., Kahf (1998), he defines waqf as "holding a *Maal* (property) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness or philanthropy."

Hence, waqfs are very much closed to economic in different aspects: (i) it gives the transfer of *ownership* of the said property to a trustee; (ii) the said property is taken from the owner's wealth such as cash waqf, it reduces the consumption of owner but it creates a "transitory" wealth of recipient or it generates benefits of other generations via intra or intergenerational transfer; and (iii) the concept of perpetuity of waqf remains as long as its asset lasts, hence the accumulation of stocks (or investment) remain with the trustee; and (iv) finally it increases the sources of revenue and expenditure of the trustee.

3. EFFICIENCY WAQF FRAMEWORK

The convenience of assessing the multiple input and output variables of these entities by not requiring congruity and an a priori relationship makes it a very popular management tool in many application areas (Akçay, Ertek, & Büyükoçkan, 2012). According to the authors, DEA is a widely used benchmarking tool to evaluate performances and efficiency.

Several papers discussed this in relation to banking or financial institutions' efficiency (Berger, Leusner, & Mingo, 1997; Berger & Mester, 1997; Drake, Hall, & Simper, 2009; Halkos & Salamouris, 2004; Holod & Lewis, 2011). Since there is no publication as yet that discusses the use of DEA in measuring Waqf institutions' efficiency, the measurement of efficiency used for Islamic banks and Zakat departments will be referred to as the identified proxy method in measuring the efficiency of Waqf institutions.

Sufian (2009) conducted a study to find the determinants of banking efficiency during the Asian financial crisis in 1997 from the Malaysian perspective. The study investigated Malaysian banking efficiency during the crisis using the DEA approach. In his research, Sufian (2010) presented an analysis that employed the DEA method on quarterly data to construct the efficiency frontiers. Nor Hayati Ahmad, Mohamad Akbar Noor, Mohamad Noor, and Fadzlan Sufian (2010) further provided an empirical study that measured Islamic banks' efficiency throughout all the Muslim countries that were practicing Islamic banking during the period of 2003 to 2009. This vast research was dominated with macroeconomic findings that revealed the countries' banking characteristics and economic indicators which were linked with the Islamic banking sector's performance.

Norazlina Abd and Abdul Rahim Abdul (2011) in their paper discussed the efficiency measurement on Zakah Collectors Board in Malaysia. The study examined the determinants of Zakah collection in Zakah institutions and then measured the efficiency of the organization using technical efficiency (TE), pure technical efficiency (PTE) and scale efficiency (SE).

In DEA, Berber, Brockett, Cooper, Golden, and Parker (2011) analyzed the efficiency of SPEs (Social Profit Enterprises) and described social profit as “the amount of social and humanitarian benefit gained as a result of investing in the well-being of others”. DEA provided estimates of potential improvements for inefficient DMUs. The study indicated that in not-for-profit (NFP) organisations where market prices or relative values of outputs are not readily available, DEA emerged as a particularly useful service management technique.

Berber et al. (2011) divided the analysis into two stages i.e. Stage 1 for fundraising efficiency and Stage 2 for service provision efficiency. In the study, both stages were considered as two-stage linked DEA analysis for NFP organisations. NFP organisations were noted as different from the private finance sector or banking sector in the above literatures, yet their motive of operation was clearly different. Nevertheless, these findings in finance sector can still be utilized as proxies in this analysis. For example, banking sector uses identical input information which is the number of its staff.

Literally, two-stage DEA has been discussed in Halkos, Tzeremes, and Kourtzidis (2014) as an imperative model for decision maker of a supply chain, a network processes within peer DMUs (Cook & Seiford, 2009), innovative of two parallel sub-processes from a two-stage process (Yu, Shi, & Song, 2013), fuzzy multi-objective stages approach (W.-K. Wang, Lu, & Liu, 2014) and functioning to manage undesirable input-output of two-phase model (Huang & Li, 2013). The idea was pioneered by Seiford and Zhu (1998) and enhanced in detail by Y.-M. Wang and Chin (2010).

The existing multi-stage DEA models can be categorized into two; closed-system and open-system models. In this study we choose an open-system where the second stage input not necessarily from the first stage output.

Table 1 : Waqf Framework 1st Stage : Waqf Collection

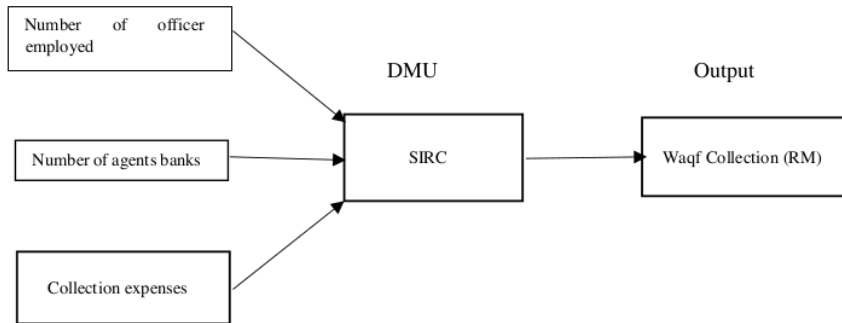
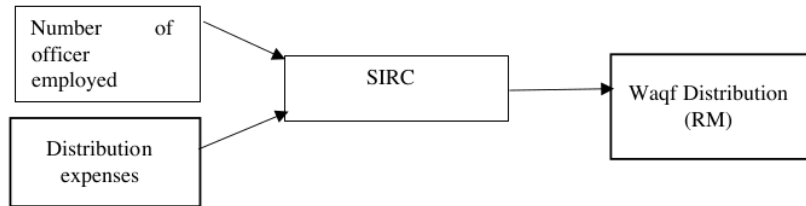


Table 2 : Waqf Framework 2nd Stage



Henceforth in this study, DMU is to represent SIRC in Malaysia from thirteen states altogether. SIRC is managed by the state government and Waqf funds are run by each SIRC according to the states' SIRC policies. As in this conceptual analysis of Waqf SIRC in Malaysia, panel data analysis of its efficiency will consider all the internal information within the institutions to measure the score of efficiency. The analysis will measure TE, PTE and SE of Waqf SIRC in both constant return to scale (CRS) and variable return to scale (VRS) scenarios.

The data analysis panel would consist both collection and distribution information from the thirteen states' SIRC in Malaysia by measuring two-stage DEA analysis. The input information for Waqf collection (WC) efficiency will be the number of officer employed, number of agent banks and the collection expenses. The output will be the Waqf collection in the value of currency. From these figures, the efficiency of Waqf collection can be generated.

The analysis will be continued to the second stage which is to measure the Waqf distribution (WD) efficiency by the input information of the number of officer employed (for distribution) and distribution expenses. The output information will be the Waqf distribution in the currency value. Then the distribution of Waqf efficiency score will be measured.

4. CONCLUSION

From this conceptual modelling of the public Waqf efficiency measurement with DEA, efficiency scores according to the specific DMUs studied can be generated. TE measurement would be an accurate indicator to the best management practice of each and every SIRC studied. From the scores obtained in DEA, it would be possible to establish the range of efficiency scores from zero value which equals to zero per cent efficiency to the value of one which equals to a hundred per cent efficiency score. The scores can also establish a benchmark, particularly for the most efficient DMU (SIRC) to act as the role model for other DMUs in order to evaluate their performances.

Measuring both stages of collection and distribution of Waqf will provide detailed analysis of its operation. Efficiency refers to how well the institutions are using its resources (e.g. the staff, expenditure, etc.) to meet its objectives of socio-economic justice (e.g. long-term objective of reducing poverty)

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