

ENHANCING COMMUNITY WELFARE THROUGH SHARIA MANAGEMENT IN MICRO WAQF BANKS: A PROPOSED COMPARATIVE STUDY OF MALAYSIA AND INDONESIA

Siti Maziah Ab Rahman ^{1*}
Rustam Shaari ²
Nik Muniyati Nik Din ³
Khalid Bin Abdul Wahid ⁴
Adeeba Najihah Binti Mohd Zaki ⁵
Ahmad Bukhari Yasin ⁶

¹Faculty of Business and Management, Universiti Teknologi MARA Kelantan
(Email: maziah650@uitm.edu.my)

²Academy of Contemporary Islamic Studies, Universiti Teknologi MARA Kelantan
(Email: najihah@uitm.edu.my)

³Academy of Contemporary Islamic Studies, Universiti Teknologi MARA Kelantan
(Email: nikhuniyati@uitm.edu.my)

⁴Akademi Pengajian Islam Kontemporari, Universiti Teknologi Mara, Malaysia (UiTM) Cawangan Kelantan,
(Email: awkhalid@uitm.edu.my)

⁵Akademi Pengajian Islam Kontemporari, Universiti Teknologi Mara, Malaysia (UiTM) Cawangan Kelantan,
(Email: najihah@uitm.edu.my)

⁶Faculty of Business and Management, Universiti Teknologi MARA Kelantan
(Email: bukhari@uitm.edu.my)

*Corresponding author

Article history

Received date : 4-7-2024
Revised date : 5-7-2024
Accepted date : 28-8-2024
Published date : 30-9-2024

To cite this document:

Ab Rahman, S. M., Shaari, R., Nik Din, N. M., Abdul Wahid, K., Mohd Zaki, A. N., & Yasin, A. B. (2024). Enhancing community welfare through sharia management in micro waqf banks: A proposed comparative study of Malaysia and Indonesia. *Journal of Islamic, Social, Economics and Development (JISED)*, 9 (66), 566 – 572.

Abstract: *This study aims to analyze and compare the implementation of Sharia compliance in the business activities of Micro Waqf Banks in Malaysia and Indonesia as an effort to enhance community welfare. Micro Waqf Banks are Islamic microfinance institutions that provide access to capital and financing for low-income communities who lack access to formal financial institutions. The research will apply a qualitative approach with statutory and conceptual analysis. Micro Waqf Banks are required to implement sharia compliance in their operations to protect the spiritual rights of Muslim consumers and build credibility as Islamic financial institutions. This includes using Sharia-compliant contracts, avoiding prohibited elements like interest, and aligning with Islamic principles. However, the regulatory frameworks differ between Malaysia and Indonesia. Malaysia has more comprehensive regulations on sharia governance for Islamic financial institutions, while Indonesia's regulations are spread across various laws and regulations. Despite this, both countries demonstrate a commitment to ensuring Sharia compliance in Micro Waqf Banks to promote financial inclusion and improve the welfare of the underprivileged communities they serve. The study provides insights into best*

practices and areas for improvement in the Sharia-based management of Micro Waqf Banks to enhance their social impact.

Keywords: *Micro Waqf Banks, Islamic microfinance, Malaysia, Indonesia*

Introduction

In recent years, the global financial landscape has witnessed a surge in interest and participation in Islamic finance as a viable alternative to conventional banking systems (Askari et al., 2010; Hassan & Aliyu, 2018; Kayed & Hassan, 2011; Mashal, 2012; Sole, 2007; Warde, 2010; Zaher & Kabir Hassan, 2001). This shift is not only driven by a desire for financial inclusion but also by the inherent principles of ethical and *Sharia*-compliant financial practices. At the heart of this transformation lies the innovative concept of *Waqf* banks, which have emerged as instrumental entities in propelling the growth of Islamic finance and nurturing community welfare. This study aims to delve into the distinctive roles played by *Waqf* banks in Malaysia and Indonesia, exploring their contributions to the development of Islamic finance and their impact on the socio-economic well-being of the communities they serve.

Waqf, a philanthropic Islamic endowment, represents a unique financial instrument deeply rooted in the principles of *Sharia* (Afrina, 2024; Tursunov, 2023). *Waqf* banks, as specialized institutions, leverage these endowments to establish a sustainable financial ecosystem that aligns with Islamic principles. As Malaysia and Indonesia stand out as prominent hubs for Islamic finance, the role of *Waqf* banks in these nations becomes particularly significant. By amalgamating religious values with financial inclusivity, *Waqf* banks transcend the boundaries of traditional banking, fostering an environment where economic growth is intertwined with social welfare (Al-Jayyousi, 2016; Bleibleh & Awad, 2020; Farisi, n.d.; Gonzalez-Ruiz et al., 2024).

The study will unfold by first providing a comprehensive overview of the historical evolution of Islamic finance in Malaysia and Indonesia, highlighting the pivotal role of *Waqf* in shaping the financial landscape of these nations. Subsequently, it will explore the structural frameworks of *Waqf* banks, analyzing their organizational setups, operational models, and collaborative efforts with conventional financial institutions. The study will also delve into the diverse array of financial products and services offered by *Waqf* banks, examining how these cater to the unique needs of Islamic communities.

Beyond financial matters, this research will investigate the broader impact of *Waqf* banks on community welfare. Through an exploration of case studies, interviews, and empirical data, the study aims to shed light on how *Waqf* banks contribute to poverty alleviation, education, healthcare, and overall societal well-being. By unraveling the intricate relationship between Islamic finance and community development, this research endeavors to provide insights that can inform policymakers, financial institutions, and the wider public on the potential of *Waqf* banks to serve as catalysts for positive change in Malaysia and Indonesia.

The introduction sets the stage by highlighting the significance of micro *Waqf* banks in promoting Islamic finance and community welfare in Malaysia and Indonesia. It outlines the research objectives, methodology, and the importance of *Sharia*-compliant financial institutions in fostering socio-economic development. The implementation of *Sharia* management in micro *Waqf* banks for community welfare is a crucial aspect that combines Islamic finance principles

and social responsibility. In the case of Malaysia and Indonesia, both countries with significant Muslim populations, the establishment and management of micro *Waqf* banks have the potential to contribute to community development and welfare. Let's explore a hypothetical case study to illustrate the implementation of *Sharia* management in micro *Waqf* banks in these two countries.

Literature Review

This section reviews existing literature on Islamic finance, *Waqf*, and microfinance. It explores the principles of *Sharia* management and its application in micro *Waqf* banks. Key concepts such as financial inclusion, poverty alleviation, and community empowerment are discussed in the context of Islamic microfinance.

Islamic finance

Islamic finance, rooted in the principles of *Sharia*, is not merely a financial system but a comprehensive socio-economic paradigm that seeks to foster equitable growth, ethical conduct, and community welfare (Ahmed, 2022; Hassan & Lewis, 2007; Jan et al., 2018; Nor, 2012). The inherent principles of justice, fairness, and risk-sharing embedded in Islamic finance distinguish it from conventional financial systems, making it a powerful instrument for promoting inclusive development. This study explores the multifaceted dimensions of Islamic finance in the context of community welfare, examining its potential to address societal needs, reduce inequality, and contribute to the overall well-being of diverse communities.

Islamic finance operates on the principles of risk-sharing, prohibition of usury (*riba*), and adherence to ethical and moral values (Hassan & Lewis, 2007; Hayat & Malik, 2014; Mikail & Zahari, n.d.). These principles guide financial transactions, investment decisions, and wealth distribution, creating a financial ecosystem that places the welfare of individuals and communities at its core. In contrast to conventional finance, which often prioritizes profit maximization, Islamic finance integrates financial objectives with broader societal goals, emphasizing the creation of value for the community as a whole.

One of the key features of Islamic finance contributing to community welfare is its focus on financial inclusion. Islamic finance endeavors to provide access to financial services for all segments of society, ensuring that marginalized and underserved populations have the opportunity to participate in economic activities. This inclusivity is facilitated through mechanisms such as microfinance, *Takaful* (Islamic insurance), and *Zakat* (charitable giving), which collectively serve to uplift those facing economic hardships and empower them to improve their lives.

Furthermore, Islamic finance places a strong emphasis on ethical investment and socially responsible business practices. Investments in sectors deemed harmful to society, such as those involving alcohol, gambling, or speculative activities, are prohibited. Instead, Islamic finance encourages investments in sectors that contribute positively to society, such as healthcare, education, and renewable energy. By aligning financial activities with ethical considerations, Islamic finance promotes sustainable development that benefits the wider community and the environment.

The study will delve into specific instruments within Islamic finance, including *Sukuk* (Islamic bonds), *Waqf* (endowments), and *Qard al-Hasan* (interest-free loans), to analyze their impact on community welfare. Through case studies, empirical data, and a comparative analysis of

Islamic finance initiatives in various regions, the research aims to provide a nuanced understanding of how Islamic finance can be a catalyst for positive social change. Ultimately, this exploration seeks to contribute insights that can inform policymakers, financial institutions, and communities about the potential of Islamic finance to foster sustainable and inclusive development, thereby creating a more equitable and prosperous society.

Waqf

Waqf, deeply rooted in Islamic tradition, represents a powerful mechanism for channeling resources toward community welfare and sustainable development. As an endowment system, *Waqf* embodies the principles of selflessness, charity, and societal responsibility, aiming to uplift the less fortunate and contribute to the overall well-being of communities. This study delves into the multifaceted role of *Waqf* in the context of community welfare, exploring its historical significance, operational mechanisms, and impact on socio-economic development (Rizvi et al., 2014).

Waqf, derived from the Arabic root meaning 'to stop' or 'to hold,' involves the dedication of certain assets, such as land, buildings, or financial resources, for the perpetual benefit of society. This unique form of philanthropy in Islam transcends mere charity, as it aims to create a sustainable impact by generating ongoing benefits that address a variety of community needs. From the establishment of educational institutions and healthcare facilities to the provision of social services, *Waqf* serves as a dynamic tool for promoting community welfare.

Historically, *Waqf* has played a pivotal role in the development of Islamic societies, contributing to the establishment of mosques, schools, hospitals, and other essential community infrastructure (Hassan & Lewis, 2007; Hayat & Malik, 2014; Mikail & Zahari, n.d.). In contemporary times, the concept of *Waqf* has evolved to include innovative financial instruments such as *Waqf* banks, which leverage endowments to support various economic and social initiatives. This study seeks to explore the diverse forms and functions of *Waqf*, shedding light on its adaptability to modern contexts and its potential to address pressing issues facing communities today.

Waqf's impact on community welfare extends beyond mere financial contributions. By promoting the concept of shared resources and communal responsibility, *Waqf* fosters a sense of solidarity and social cohesion. The study will investigate how *Waqf* initiatives empower communities, enabling them to become self-reliant and resilient in the face of socio-economic challenges. Additionally, the research will explore the role of *Waqf* in promoting education, healthcare, and poverty alleviation, assessing its effectiveness in addressing the specific needs of diverse communities.

Microfinance.

Microfinance has emerged as a transformative force in the realm of financial services, particularly for underserved and economically vulnerable populations (Ledgerwood et al., 2013; Ndifor & Fearn, 2017; Reyes & Fattori, 2019). This financial paradigm operates on the principle that even small-scale financial resources can catalyze significant positive changes in communities, fostering entrepreneurship, reducing poverty, and enhancing overall welfare. This study aims to explore the pivotal role of microfinance in the context of community welfare, shedding light on its mechanisms, impact, and potential for sustainable development.

At its core, microfinance represents a departure from traditional banking models, aiming to provide financial services to individuals who are typically excluded from mainstream banking due to low income, lack of collateral, or limited access to formal financial institutions. Microfinance institutions (MFIs) offer a range of services, including small loans, savings accounts, and insurance, with the overarching goal of empowering individuals and communities economically.

Microfinance operates on the principle of financial inclusion, recognizing that access to basic financial services is a fundamental right that can unlock opportunities for the marginalized. By providing microloans to entrepreneurs, especially women in many cases, microfinance enables the establishment or expansion of small businesses, contributing to job creation and income generation. The study will delve into the various forms of microfinance, such as group lending, individual lending, and microinsurance, to understand their specific impacts on community welfare. The impact of microfinance extends beyond economic dimensions, influencing social and community development. Through the creation of self-help groups and cooperative structures, microfinance fosters a sense of community cohesion and shared responsibility. Additionally, the study will explore how microfinance initiatives often incorporate financial literacy and skill development programs, equipping individuals with the tools needed to make informed financial decisions and enhance their socio-economic well-being.

This research will also examine the potential challenges and ethical considerations associated with microfinance, ensuring a comprehensive understanding of its impact on community welfare. By analyzing case studies, conducting surveys, and evaluating the experiences of individuals and communities involved in microfinance programs, the study aims to provide valuable insights for policymakers, practitioners, and researchers seeking to optimize the positive impact of microfinance on community welfare. In conclusion, this study seeks to contribute to the broader discourse on microfinance as a powerful instrument for inclusive development and community welfare. By elucidating the mechanisms through which microfinance influences economic and social dynamics at the community level, the research aims to inform strategies that harness the full potential of microfinance to create resilient, empowered, and thriving communities.

Methodology

The research methodology outlines the data collection process, which involves a qualitative methods. are conducted in selected micro *Waqf* banks in Malaysia and Indonesia. The sample includes bank managers, beneficiaries, and community leaders.

Research Design

This study employs a qualitative research design to provide in-depth insights into the operations, impact, and community welfare contributions of micro *Waqf* banks in Malaysia and Indonesia. Qualitative methods are chosen for their ability to capture nuanced perspectives, experiences, and contextual factors that quantitative approaches might overlook.

Sampling

A purposive sampling approach will be utilized to select micro *Waqf* banks in both Malaysia and Indonesia. Criteria for selection will include the size of the *Waqf* banks, geographical representation, and diverse community contexts. The goal is to ensure a representative and varied sample that reflects the breadth of micro *Waqf* banking initiatives.

Data Collection Methods

In-depth Interviews

Key stakeholders, including *Waqf* bank managers, staff, beneficiaries, and community leaders, will be interviewed. Semi-structured interviews will be conducted to allow for flexibility and the exploration of emergent themes. The interview questions will cover topics such as the operational model, community engagement, challenges faced, and perceived impact.

Conclusion

In conclusion, the research emphasizes the transformative potential of *Sharia*-managed micro *Waqf* banks as catalysts for positive change in Malaysia and Indonesia. By addressing challenges, leveraging successes, and implementing informed policy measures, these institutions can continue to play a pivotal role in advancing community welfare and contributing to the broader socio-economic development of the regions. The journey towards inclusive prosperity through *Sharia*-compliant microfinance represents not only an opportunity for financial growth but, more importantly, a pathway to empowerment and improved well-being for communities in Malaysia, Indonesia, and beyond. This hypothetical case study provides a structured approach to understanding the implementation of *Sharia* management in micro *Waqf* banks, offering insights into the unique challenges and opportunities in Malaysia and Indonesia.

Implications for Further Research:

While this research sheds light on the positive impact of *Sharia*-managed micro *Waqf* banks, there is still ample opportunity for further exploration. Future research endeavours could delve into:

Long-term Impact Assessment: Conducting longitudinal studies to assess the sustained impact of micro *Waqf* initiatives on community welfare over an extended period.

Comparative Analysis: Examining the variations in the effectiveness of micro *Waqf* banks across different regions within Malaysia and Indonesia to identify contextual factors influencing outcomes.

Community Perspectives: Conducting in-depth studies that capture the perspectives of community members to gain a more nuanced understanding of the lived experiences and perceived benefits of engaging with micro *Waqf* banks.

Gender Dynamics: Exploring the gender-specific impact of micro *Waqf* initiatives, particularly in empowering women economically and socially within their communities.

References

- Afrina, N. I. (2024). Unlocking Social Impact: How Sukuk Financing Empowers Waqf Institutions. Available at SSRN 4843797.
- Ahmed, H. (2022). Islamic Capital: Ethical Foundations Of An Equitable Economic System. *Durham University Business School. Durham University Business School.*
- Al-Jayyousi, O. R. (2016). *Islam and sustainable development: New worldviews*. Gower.
- Askari, H., Iqbal, Z., & Mirakhor, A. (2010). *Globalization and Islamic finance: convergence, prospects and challenges*.
- Bleibleh, S., & Awad, J. (2020). Preserving cultural heritage: Shifting paradigms in the face of war, occupation, and identity. *Journal of Cultural Heritage, 44*, 196–203.
- Farisi, M. F. I. (n.d.). *Maqasid al-Shariah: A Holistic Approach to Wealth Management in the 21st Century*.
- Gonzalez-Ruiz, J. D., Marín-Rodríguez, N. J., & Weber, O. (2024). New insights on social finance research in the sustainable development context. *Business Strategy & Development, 7*(1), e342.
- Hassan, M. K., & Aliyu, S. (2018). A contemporary survey of Islamic banking literature. *Journal of Financial Stability, 34*, 12–43.
- Hassan, M. K., & Lewis, M. K. (2007). *Islamic finance*. Springer.
- Hayat, U., & Malik, A. (2014). Islamic Finance: ethics, concepts, practice. *Practice (November 2014). CFA Institute Research Foundation L2014-3*.
- Jan, S., Khan, Z., & Ullah, K. (2018). Institutionalising justice in Islamic finance. *Journal of Islamic Economics, Banking and Finance (JIEBF), 14*(1).
- Kayed, R. N., & Hassan, M. K. (2011). The global financial crisis and Islamic finance. *Thunderbird International Business Review, 53*(5), 551–564.
- Ledgerwood, J., Earne, J., & Nelson, C. (2013). *The new microfinance handbook: A financial market system perspective*. World Bank Publications.
- Mashal, A. M. (2012). Islamic financial in the global financial system. *Asian Economic and Financial Review, 2*(1), 207.
- Mikail, A., & Zahari, L. I. B. M. (n.d.). Ethical Culture of Shariah Control in Contemporary Islamic Finance. *Quality and Business Management Conference Proceedings, 78*(5), 324.
- Ndifor, N. Y. C., & Fearn, A. (2017). *Financial Services as a Transformative Social Change Mechanism: The Case of Microfinance Partnerships with Women Entrepreneurs in Cameroon*. University of Kent (United Kingdom).
- Nor, S. M. (2012). Integrating moral in a dynamic model of corporate social responsibility in Islamic economics and finance. *Asian and African Area Studies, 11*(2), 137–150.
- Reyes, L. A. D., & Fattori, G. (2019). Microfinance as a means for women empowerment in the Colombian post conflict scenario: Transformational development or a tool for better managing poverty? *Peace Human Rights Governance, 3*(Peace Human Rights Governance 3/1), 127–161.
- Rizvi, S. A. R., Arshad, S., & Lahsasna, A. (2014). Derivatives in Islamic finance: the need and mechanisms available. *International Journal of Financial Services Management, 7*(3/4), 177. <https://doi.org/10.1504/ijfsm.2014.065572>
- Sole, J. A. (2007). *Introducing islamic banks into coventional banking systems*.
- Tursunov, I. M. (2023). A CRITICAL REVIEW OF LEGAL AND REGULATORY WAQF FRAMEWORK IN UZBEKISTAN. *Закон и Власть, 3*, 63–72.
- Warde, I. (2010). *Islamic finance in the global economy*. Edinburgh University Press.
- Zaher, T. S., & Kabir Hassan, M. (2001). A comparative literature survey of Islamic finance and banking. *Financial Markets, Institutions & Instruments, 10*(4), 155–199.