

THE FINANCIAL MANAGEMENT OF NON-SHARIAH COMPLIANT ASSETS AT BAITULMAL

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Abstract: *Effective financial management is essential for an institution to achieve its set objectives. Given its significant role in the socio-economic welfare of the Muslim community, the State Islamic Religious Council (MAIN) must ensure that Baitulmal operates with both effective and efficient financial management. Baitulmal should be entrusted with a larger role and its right to receive and manage resources, including non-Shariah compliant assets, should not be denied. This study seeks to examine the challenges associated with financial management in the handling of non-Shariah compliant asset funds at Baitulmal under MAIN. The financial management at MAIN's Baitulmal still exhibits shortcomings, such as the lack of an audit report for the receipt and expenditure of its funds, including those involving non-Shariah compliant assets. This qualitative study adopts a literature-based approach, drawing on both primary and secondary sources, including the Qur'an, the Sunnah, journal articles, books, official MAIN websites, and the Non-Shariah Compliant Asset Management Manual from the Department of Waqf, Zakat, and Hajj (JAWHAR). The study's findings reveal that several states still lack appropriate systems and financial reports regarding the receipt and expenditure of non-Shariah compliant assets. To improve the efficiency of Baitulmal in Malaysia, greater attention must be given to enhancing its financial management, particularly in the collection and distribution of Baitulmal funds.*

Keywords: *financial management, assets, non-Shariah compliant assets*

Introduction

Baitulmal is an institution with a vital role and important responsibilities in fostering the country's development across education, infrastructure, social welfare, and the economic prosperity of the Muslim community. Baitulmal is also recognised as the national treasury. Baitulmal is an institution that plays a key role in the system of Islamic financial administration. The term "Baitulmal" in Arabic can be translated as "House of Wealth" or "Public Treasury" in the context of Islamic finance and administration. It refers to the financial institution or fund in Islamic countries responsible for the collection and distribution of public revenues. Baitulmal is defined as the institution that oversees the inflow and outflow of funds across various areas of expenditure. It operates under the authority of the Caliph or ruler, who positions it in accordance with Allah SWT's commands, overseeing the state's affairs during both times of peace and war. This is supported by the studies of Adlan (2016) and Abdul Kadir (2007), who define Baitulmal as an institution responsible for managing the flow of funds, both incoming and outgoing, across various areas of expenditure.

It operates under the authority of the Caliph or ruler, who is responsible for distributing funds in accordance with the commands of Allah SWT, and for managing the affairs of the state during both times of peace and war. Meanwhile, Mohamad and Mohamad Farihal (2018) regard Baitulmal as an Islamic financial institution, rather than a bank, which is responsible for receiving, collecting, and distributing funds, money, assets, and national income from various sources to support the development of the people and the nation.

This institution is responsible for ensuring that non-Shariah compliant assets received from individuals or institutions are properly managed and comply with Shariah principles. Good governance includes sound and transparent financial management, high accountability, and the fair distribution of funds to the community. Financial management is a crucial aspect of an organisation's success and plays a key role in the economic and social development of the Muslim community. The financial management of Baitulmal involves the collection, handling, and utilisation of funds effectively and efficiently, grounded in ethical principles and Islamic values. According to Mahamad Tayib (2009), Baitulmal serves as the repository for recording the distribution and collection of assets. It is described as the national treasury that receives, manages, and coordinates the accumulation of financial resources and assets within an Islamic state, such as zakat, waqf, charity, endowments, taxes, and others. Furthermore, this institution is also responsible for the collection and distribution of doubtful or non-Shariah compliant assets.

Financial management in several Baitulmal institutions under MAIN still has weaknesses, such as the lack of audit reports for the receipt and expenditure of Baitulmal funds derived from non-Shariah compliant assets. The recording of funds received and spent is crucial for financial auditing purposes. Transparent financial reports need to be improved to enhance the transparency of information and accountability of MAIN to its stakeholders (National Accountant Department, 2020). Baitulmal should be given an innovative approach and take on a broader role in improving the socio-economic status of the Muslim community. Improvements in the management of Baitulmal should align with the needs of society. Creativity and innovation are needed to breathe new life into the existing evaluation systems (Assyifaa, 2021). This study aims to identify the issues in financial management concerning the handling of non-Shariah compliant asset funds at MAIN's Baitulmal.

Research Methodology

This qualitative study employs a literature review methodology, using both primary and secondary sources such as the Qur'an, the Sunnah, journal articles, books, the official MAIN website, and the Non-Shariah Compliant Asset Management Manual by the Department of Waqf, Zakat, and Hajj (JAWHAR). The study is analysed using an inductive thematic analysis, focusing on the identification of themes that naturally emerge from the data collected.

Literature Review

Three key topics will be discussed in this section: non-Shariah compliant assets, the financial management of non-Shariah compliant assets and

Non-Shariah Compliant Asset

Assets refer to things that are owned by an individual. An asset is defined as any item that is owned and controlled by its proprietor, whether it is a tangible item (*'ain*) or a benefit (*manfa'ah*). An item is considered an asset if it holds value, is pure, and is owned. It is crucial to know whether the sources of wealth are derived from halal or haram elements. As a Muslim, it is an obligation to understand the factors that make certain transactions unlawful. When it is established that such factors involve something haram, the wealth is classified as haram. The Prophet (SAW) said:

“Indeed, Allah is Good and accepts only that which is good.”

(Reported by Muslim, 3/85)

Purification of Non-Shariah Compliant Asset

Zaharuddin Abdul Rahman (2010) explains that if wealth is obtained from a haram sources and its owner is known, the proper way to dispose of it is by returning the wealth to its rightful owner, seeking forgiveness, and repenting to Allah SWT. Sheikh 'Atiyyah Saqar (former Head of the Fatwa Committee at Al-Azhar) explained that when repenting, haram wealth must be disposed of in the following ways:

- i. The wealth should be returned to its rightful owner (if known) or to their heirs;
- ii. If the owner cannot be identified, it should be given to the poor and needy to sever ties with it, and not for the intention of gaining reward from the donation.

Non-Shariah compliant assets must be relinquished by the Muslim individual and transferred to the government for the benefit of the public. The government in question is Baitulmal. This statement is supported by a study conducted by Muhammad Fadli Abdullah & Azizi Che Seman (2018), which, based on the fatwas issued in Malaysia, indicates that Baitulmal is the body responsible for managing non-Shariah compliant assets and subsequently distributing them to those in need. The establishment of Baitulmal and its role are also detailed in the provisions of state enactments, the majority of which state that Baitulmal functions as a fund.

According to the 87th Fatwa Committee Conference, the National Council for Islamic Affairs, held from 23-25 June 2009, it was decided that all types of wealth acquired through means contrary to Shariah must be purified according to certain methods. The first method is to surrender it to the Baitulmal institution. Baitulmal is an institution responsible for managing non-Shariah compliant assets, including financial management.

Financial Management of Non-Shariah Compliant Asset

Financial management refers to the process of planning, implementing, and controlling financial activities within an entity or organisation. In the context of business or organisations, financial management involves the collection, processing, and use of financial information to make strategic and effective decisions. It is a process that includes managing money from sources of income for savings, expenditure, protection, and investment (Department of Information Malaysia, 2021). According to Ross, S. A., Westerfield, R. W., & Jordan, B. D. (2019), financial management encompasses the analysis and financial decisions necessary to achieve an organisation's strategic objectives, including financial planning, investment, and financing. Financial management of non-Shariah compliant assets refers to the processes and strategies used to manage, invest, and dispose of assets that do not adhere to Islamic law (Shariah). In the context of Islamic finance, assets are considered compliant if they meet specific principles outlined by Shariah, such as avoiding interest (*riba*), gambling (*maysir*), and activities that are considered harmful or unethical (like alcohol, tobacco, or adult entertainment).

Financial Management of Non-Shariah Compliant Asset by Baitulmal

We have to identify which assets do not comply with Shariah principles. This could involve analyzing the nature of the asset, its origin, and its revenue generation methods such as interest-bearing investments or investments in prohibited industries. Baitulmal has various sources of funds, such as interest (*riba*) money, compensation (*ta'widh*), damages, fines, non-Shariah compliant funds, questionable (*syubhah*) funds, haram money, and bribes. However, these sources of funds are not channelled to Baitulmal. This is supported by a study from Roslan (2009), which explains that non-Shariah compliant money in Islamic financial markets is being directed to entities that should not receive it, such as non-Islamic organisations, even though these funds originate from Islamic businesses.

Abdullah Alwi (2003) states that Baitulmal is established based on the concept of trust in financial management. The wealth in Baitulmal belongs to Allah SWT and is not the property of the government or ruling authority. The government or the governing body acts solely as a trustee, with the responsibility to spend the funds for the welfare and benefit of the Muslim community. Key principles that must be considered in the financial management of Baitulmal include zakat and charity, *musharakah* and *mudharabah*, sustainability, and fairness in fund distribution, as well as providing transparent financial reporting. Baitulmal can use the *musyarakah* and *mudharabah* financing concepts in managing funds for projects that benefit the community.

In the distribution of funds, Baitulmal must apply the principles of sustainability and fairness to ensure that the funds are used effectively. Baitulmal must also uphold the principles of transparency and accountability to ensure that the funds are managed without any misuse. Accountability should be maintained by providing clear and detailed financial reports to stakeholders. In the study by Fateemah, Norhayati, and Noraini (2019), it is stated that zakat institutions demonstrate their accountability by improving their reports on the collection and distribution of funds. Baitulmal needs to practise high levels of transparency in financial management. This institution is responsible for ensuring that all its financial activities comply with the laws and regulations in Malaysia, including those related to Islamic economics and trust fund management.

Accountability management refers to the efficient and effective management of Baitulmal funds, ensuring that they are used without any waste. Baitulmal must also manage these funds with integrity, avoiding corruption and fraud. Furthermore, better financial education should be provided to the wider community, raising awareness and understanding of the sources that can be channeled into Baitulmal. Additionally, Baitulmal should play a key role in enhancing public understanding of the importance of compliance with Shariah principles in the context of finance and investment. Portfolio management strategies should be implemented to reduce or eliminate non-Shariah compliant assets.

The management of non-Shariah compliant assets by Baitulmal holds significant importance within the context of Islamic values. To support infrastructure development, Baitulmal can not only use the funds it manages to provide infrastructure facilities, but it can also invest in infrastructure development projects that align with Shariah principles, fostering economic and social growth for the Muslim community. Through sound financial management, the economic empowerment of Muslims can be achieved through investments, financing, and development projects that are in line with Islamic values. Furthermore, Baitulmal can utilise these funds by offering interest-free financing or alternative financial instruments that comply with Shariah principles, providing fair and ethical alternatives in accordance with Islamic business ethics.

The management of non-Shariah compliant assets represents a financial solution that aligns with Shariah principles, and this contributes to a progressive and inclusive Islamic financial system. If Baitulmal can manage these funds effectively, the institution will gain the trust of the community and enhance its reputation as a financial institution with integrity, thereby strengthening its financial resilience. The views and advice of Shariah experts are crucial when making financial decisions involving haram assets, ensuring proper compliance with Shariah principles. Assyifaa (2021) asserts that empowering Baitulmal is a key agenda in line with the rapid development of the Islamic finance sector. The effectiveness and efficiency of a non-profit organisation are determined by the financial reports it provides. If these financial reports are not well-prepared, it could lead to misinterpretation and result in poor decision-making (Kamaruddin MIH, 2015).

Conclusion

Baitulmal is an institution responsible for the management of non-Shariah compliant assets, including financial management. A well-organised system and financial reports for the receipt and expenditure of non-Shariah compliant assets will guide the institution towards integrity and earn the trust of stakeholders. Therefore, MAIN's Baitulmal, which still lacks effective financial management, needs to take action by making improvements to achieve one of the seventeen Sustainable Development Goals for 2030, namely peace, justice, and strong institutions

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