

Development of Cash Waqf Framework Investment-Based Ar-Rahnu Model For Islamic Pawn Broking

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ABSTRACT

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Researchers have discussed the model and framework of cash waqf investment in Malaysia to give insight into the development of waqf in Malaysia's State Religion Islamic Councils (SIRCs). Whilst, ar-Rahnu is an Islamic pawn broking that objectively provides customers with financial well-being through pledging and borrowing. However, ar-Rahnu providers need more funds to provide borrowing funds, which increases from time to time and affects customers' interests. Therefore, ar-Rahnu providers should embark with new solutions to ensure institutions' sustainability. As a result, this research aims to look into cash waqf investment models that can be implemented in ar-Rahnu's activities. This qualitative study used a data collection method in the form of content analysis. The data was analyzed based on inductive methods to obtain the result of the study. This paper found that cash waqf investment models have been extensively discussed, however, less of it has focused on the ar-Rahnu scenario. As a result of the paper's discussion, the ar-Rahnu framework based on the cash waqf investment model was developed. By utilising cash waqf in ar-Rahnu operations, ar-Rahnu can sustain and compete with other counterparties.



1. INTRODUCTION

Social financial investment is not just about giving money to charities and other good causes. From both social and economic point of view, social finance is a type of investment that makes money. Islamic social finance includes traditional Islamic instruments that are based on helping others. These instruments refer to traditional Islamic financial products based on charity work (like zakat, charity, and waqf) and cooperation with financial transactions (like al-Qard and Kafalah) (Islamic Social Finance Report, 2015: 8).

Islamic pawnbroking, or ar-Rahnu, is one micro-Islamic finance product based on credit or debt. Microcredit has become an important way to fight poverty, and small businesses in rural areas benefit from the attention of the microcredit sector. In Malaysia, ar-Rahnu-based microcredit facilities have become more important due to the increase of Islamic finance awareness among the community. On the other hand, "Pawning" has been around for a long time and is done by people of many different races in Malaysia. This ancient financial practice was also discovered in the Greek and Roman civilizations (Md. Yusuf et al., 2015; Bhatt and Sinnakkannu, 2008).

After the year 2019, many people were affected by the COVID-19 pandemic and required financial assistance due to the work ban imposed as part of the COVID-19 control process. In order to survive, they are forced to pawn their jewellery. Due to the circumstances mentioned earlier, the demand for ar-Rahnu increased while the shortage of available cash for financing lessened. Eventually, pawn businesses struggle to obtain sufficient funds because the pawnbroker can't pay off the debt with the jewellery that was put up as collateral. Thus, the issue of the sale and purchase of mortgage letter transactions has arisen whereby buying and selling activities happen between the owner of the pawning letter and the broker based on the weight of gold listed in the letter.

No one can deny that the social finance sector, such as al-Rahnu, provides assistance to Muslim financial intermediaries. COVID-19 has affected household income globally. According to the Department of Statistics Malaysia (DOSM), many middle-income households have moved to lower-income groups (DOSM, 2021). Consequently, many people ask to pledge their wealth to cover their obligations.

In the worst-case scenario, some customers go to traditional pawn shops or borrow money from illegal sources like Ah Long. This is because conventional pawn shops and illegal sources like Ah Long can offer a higher margin to value collateral and unlimited loan repayment time (Bhatt & Sinnakkannu, 2008; Shah & Yaacob, 2018).

Aznan Hasan and Nor Razinah Mohd Zain (2021) came up with the idea to mix al-Rahnu products with waqf. In contrast, Ar-Rahnu products can also be combined with other Islamic social and financial instruments such as Waqf and Sadaqah through Waqf investment in Ar-Rahnu by relevant institutions. Numerous research has been made to develop innovative ideas through cash waqf to achieve a community's socio-economic success (Aldeen et. al., 2020). Waqf is a continuous act of charity that was set up to help people in different ways. It has been used successfully in many social and human development services, like education and health.

More research on financial intermediaries, financial self-sufficiency, and financial management in ar-Rahnu institutions is needed in Malaysia, prompting researchers to investigate the solution and innovation further. As a result, the purpose of this paper was dual. The first step was to identify the operational issues with ar-Rahnu. It aimed to answer the question of what constraints exist on the operation of Islamic pawnbroking, particularly in post-covid-19.

Second, it sought to investigate cash waqf contribution funding and investment opportunities. It sought to answer the question, "What is the framework of investment to cope in ar-Rahnu operational?". It may be possible to increase ar-Rahnu operational sustainability by tapping cash waqf for ar-Rahnu operations.

2. LITERATURE REVIEW

2.1 The Development of the Islamic Pawnbroking Industry in Malaysia

Ar-Rahnu has several Arabic meanings. Literally, ar-Rahnu is derived from the Arabic term *rahana*, which indicates either continuity, holding, or binding. Technically, the phrase ar-Rahnu refers to pawning, mortgage, collateral, charge, lien, and pledge, which include taking property as security against debt, with the secured property being used to settle the obligation in the event of nonpayment (Dusuki, 2012).

al-Rahnu has been referred to as an Islamic pawnbroking transaction involving two parties: the Islamic financial institution and the customer of al-Rahnu. The Islamic financial institution has the right to keep the pledged item after providing a loan to the customer (Cokro, 2014). Retention fees are charged monthly, and the loan is due after six months and can be renewed for up to five years. Meanwhile, the storage fees will be charged monthly, and the loan is due after six months and can be renewed for up to five years.

Muassasah Gadaian Islam Terengganu (MGIT) was the first Islamic pawnshop. It was set up in 1992 by the Terengganu State Islamic Affairs and Malay Customs. MGIT was very important to the Muslim community when it was first established, especially for women and small businesses, because it provided them with instant cash and small loans. Pawnbroking was later established in 1992 by Permodalan Kelantan Berhad and Yayasan Pembangunan Ekonomi Islam Malaysia.

Bank Rakyat, Bank Islam Malaysia Berhad (BIMB), Agrobank, Bank Muamalat Malaysia Berhad (BMMB), and Affin Islamic were among the banks that provided al-Rahnu. Additionally, Al-Rahnu can be obtained from non-financial entities such as the Malaysian Islamic Economic Development Foundation (YAPIEM), the Malaysian Post Office, al-Rahnu Express, and Felda Cooperative (Azli et. al., 2016).

There have been two working ar-Rahnu models in the past. The first was pawnbroking, which focused on the welfare of the money by lending it without extra fees or interest, like MGIT. Second, institutions conduct business by providing loan facilities and charging deposit fees.

According to Thaker et al., (2019), there is progress in assessing products containing Ar-Rahnu in Malaysia. This is because of several important things, such as higher productivity, easier access to financial services, more religious symbols that follow Islamic rules, more positive social capital, and a faster approval process.

Ar-Rahnu has been seen as important to society and the people. Mansor (2014) and Amuda and Deraman (2015) discovered that the majority of frequent clients of ar-Rahnu services are from lower- income groups because these low-income earners are comfortable with ar-Rahnu services and do not feel burdened by the reduced service prices imposed. According to Nik Hadiyan et. al., (2016) women microentrepreneurs at Pasar Siti Khadijah, Kota Bharu, Kelantan, use ar-Rahnu as an instrument to finance their businesses.

Ar-Rahnu is a financing mechanism that has three stages: lending, redeeming, and auctioning. Customers approach the institution during the lending process, offering to place their gold jewellery under the rahn contract (pledge). Customers are given loans based on the qard (loan) contract by the institution providing ar-Rahnu.

The maximum loan amount available to customers is approximately 70% of the gold value. The pledged gold, known as the marhun, is kept by the ar-Rahnu institution according to the wadiah yad damanah principle (guaranteed deposit for safekeeping). Customers must pay service charges based on the *ujrah* (fee) principle at this point. Customers pay the service charges when they pay off their loan. The service charges imposed by the ar-Rahnu institution are typically lower than the 2% imposed by traditional pawnshops.

Traditional pawnbrokers and Islamic pawnbrokers compete with each other. Traditional pawnbroking can offer up to 85%–90% of the jewellery's value. Unlike al-Rahnu, most operators' providers have a lower margin of financing, between 65% and 80% of the value of *marhun* (Azila, 2011). Islamic pawnshops will charge an *ujrah* (fee) much less than regular pawnshops. In current practice, the charge will be on the value of the marhun (pledge item) (Appannan and Doris, 2011).

The storage fee is a monetary amount charged to customers by al-Rahnu institutions. Meanwhile, every institution has a different storage fee rate, like Bank Rakyat, which has imposed RM0.65–RM0.70 for every RM100 of the pledged item value, whereas Agrobank has imposed RM0.50 for the same amount (Mohd Azli et. al., 2017). Also, traditional pawnshops can give customers loans that are easy to get, don't require collateral, and can be paid back at any time (Bhatt & Lecturer, 2008).

In 2017, 40% of households without a bank account or with insufficient funds in their bank account visited a pawnshop (Pawn Industry Statistics, National Pawnbrokers Association, 2018). Awareness of Islamic pawnshops has increased in Muslim countries (Hanudin Amin, 2007). The study by Azila et al., (2013) showed the growth percentage of Arrahnu YaPEIM scheme borrowers in 2008 increased by 152.8 percent compared to the previous year, which was only 53.9 percent. According to Azila Abdul Razak et. al. (2013), ar-Rahnu provides the entire population with a more viable economic and political system. In terms of microcredit, Islam can help people improve their economic situation by growing new institutions like Pos Malaysia that don't focus on making money in the long run. With so many options, people have more ways to do business and can pay off their debts faster.

The primary income of Ar-Rahnu providers comes from savings wages (99%), followed by service charges and processing fees. This business gives a very fast return on capital, between six months and three years. This business will do well if customers trust the service provider, the staff is skilled, the wage retention rate is high, the operating system is good, and there is enough working capital.

The al-Rahnu institution has trouble making commercial versions of marhun like debt notes, sukuk, and shares (Barjoyai Bardai, 2014). This is due to external variables, including industry competitiveness, capital limits, and technical requirements. As a result, the financial stability of ar-Rahnu institutions has been jeopardized.

Moreover, the capital limit curbs ar-Rahnu service providers who don't get money from their parent company or other sources. This problem mostly affects small and medium-sized Ar-Rahnu service providers, like cooperatives and businesses in the state network. Operational Rahnu's business needs to be efficient and flexible to grow. However, getting money from banks

is challenging because of their strict evaluation standards, such as credit criteria and qualitative elements. Small businesses, like cooperatives and businesses that work with the government (Asiah & Salmy, 2017), often need help getting enough money to run. Besides, there is a need for stimulus funds because the loan rate at the bank is high, coupled with the low deposit savings rate at the bank.

The empirical study by Nafisah Mohamed et. al., (2013) on 135 respondents from traditional and Ar-Rahnu pawnshops in Malaysia showed that the level of competition is a threat to the growth of micro-credit service providers. So, to be competitive, a business needs a better marketing plan and a lot of money to meet market demand.

2.2 Overview of Cash Waqf and Investment of Cash Waqf Schemes

Cash waqf is defined as the confinement of a sum of money or cash by the founder and the dedication of its usufruct, in accordance with the creator's conditions, to the welfare of society in perpetuity (Magda, 2009). Cash waqf is one of the muamalah activities that have spiritual, social, and economic dimensions (Said & Amiruddin, 2019; Adirestuty et. al., 2021). Most Muslim jurists agreed on the legitimacy of cash waqf (al-Zuhaili, 2004). Cash waqf is the constant gathering of money from donors so that it can be invested in productive assets that generate income or usufruct for future use, taking into account the rules and guidelines set by both donors and recipients. In Arabic, this is known as the Waqif conditions (Shart al Waqif) (Lahsasna, 2010).

The fifteenth Islamic Fiqh Academy conference was held in Muscat in the year 1425H and agreed with cash waqf for the following reasons;

1. The concept of money in today's world differs from what was practiced in ancient times.
2. The use of cash waqf in Qard Hasan and investments, which can be direct investments or the allocation of money from different waqf founders into the waqf fund pool, or the issuance of waqf shares as another way to get people to donate.

Cash waqf should last forever, and its use should be for the good of society. They provided a comparative example between the waqf of date palms and money, emphasizing that if the former is permissible, then there is no issue with the latter. To explain further, planting date palms will always give fruits that are the same as cash waqf, which means that investments will make money grow.

Muslim jurists approved the investment of cash waqf if the investment complied with Shariah law. In its Resolution No. 140 (15/6), the Fiqh Academy said that cash waqf should be invested in Shariah-compliant ways as long as the following conditions are met:

1. First and foremost, the perpetuity of the waqf must be ensured.
2. Investments in haram industries such as liquor and gambling are not permissible
3. Precautions must be made to minimise risk, including taking out guarantees, conducting feasibility studies, etc. void high-risk, speculative investments.
4. There must be annual reports on the investment, and all key stakeholders should be informed regarding waqf fund collection and distribution.

Cash waqf is classified as movable assets and thus falls under the purview of this resolution. It is feasible to assess and forecast how effectively cash waqf collection will go since the International Council of Fiqh Academy approaches things from several perspectives. It is hoped

that these efforts will help choose a good way to invest in the future and help a larger number of people. Also, evaluating how well cash waqf is collected will boost trust in cash waqf management and make it more professional.

Cash waqf is increasingly being used to finance and develop waqf assets in Malaysia. According to Razali (2001) in Malaysia, waqf is viewed as an institution that does little to help the economy grow. Cash waqf is regarded as a viable solution to this issue. In 1983, Majlis Agama Islam Johor (MAIJ) established the first cash waqf scheme, known as waqf shares (Abdul Hamid and Mohammad, 2014). Waqf shares are similar to cash waqfs in that they are made up of cash or money (Razali, 2015). Waqf shares were created to generate revenue to fund waqf development projects, and they were the brainchild of Dato' Ahmad bin Awang, the then-Mufti of the State of Johor (Abdul Hamid and Mohammad, 2014). Individuals and businesses both contribute to the waqf shares. In 2001, MAIS implemented monetary waqf in Selangor (Fadhilah, 2017).

Cash waqf has substantially aided the field of socioeconomics, as seen by its substantial collection, widespread application, and supply of assistance. It provides additional evidence that cash waqf is not an obsolete instrument and should be managed professionally. Thus, not only will the conduct of cash waqf be ethical, but it will also be compatible with the current economy, which is transparent and progressive.

Recently, many cash waqf investment schemes have been proposed and practiced in several countries. Mohsin (2013) mentioned that there are six, which are: 1. the waqf shares scheme; 2. the deposit cash waqf scheme; 3. the compulsory cash waqf scheme; 4. the corporate waqf scheme; 5. the deposit product waqf scheme; and finally, 6. the cooperative waqf scheme.

Mohsin (2013) expands on the above cash waqf investment practices to create a framework called cash waqf fund investment (CWFI). Using murabahah financing, this plan will put 30% of the cash waqf that comes from direct or indirect sources into a low-risk portfolio. A mudharabah financing method will be used to put 20% of the money into high-risk investments.

3. METHODOLOGY

The qualitative method is used to address the research questions and objectives in this conceptual paper, which aims to develop a cash waqf investment-based ar-Rahnu model framework for Islamic pawn broking. To build the framework, it thoroughly reviews the literature on cash waqf and ar-Rahnu. Secondary data sources include papers, journal articles, and published studies. The result was obtained through content analysis based on an inductive study. The proposed conceptual framework has been developed to provide an alternative possible mechanism for maximising the benefits that can potentially be generated from cash waqf.

4. DATA ANALYSIS AND FINDINGS

4.1 Cash Waqf Investment Initiative Ar-Rahn Based Model

The sale and purchase of a mortgage statement (SAG) happen because the mortgagor can't get the money he or she needs to pay off the debt secured by certain jewellery. During this buying and selling activity, some people called brokers set prices based on the amount of gold listed in the SAG. The things that SAG buys and sells are allowed by Sharia because the thing that is being sold is the promised object, not a letter or pledge instrument. The letter is proof because it details the promised item and other important information. Also, all experts agree that, within

the activities of sale and purchase, no transactions affect the mortgagee's rights (Mohamad & Ali, 2015).

The buying process begins when a customer provides a (SAG) to the broker. The broker uses this information to determine the product's price, the number of units purchased, and the expiration date. The information is needed to determine how much the letter is worth, and the customer doesn't get any extra money until a value agreement has been made. This is because the amount of debt and savings must be considered. The broker and customer will then go to the pawn shop to make a redemption. The redemption process will be carried out by the broker or pawnbroker, depending on the conditions set by the institution that offers the pawnbroker facility. An illustration of the process is depicted in figure 1 below.

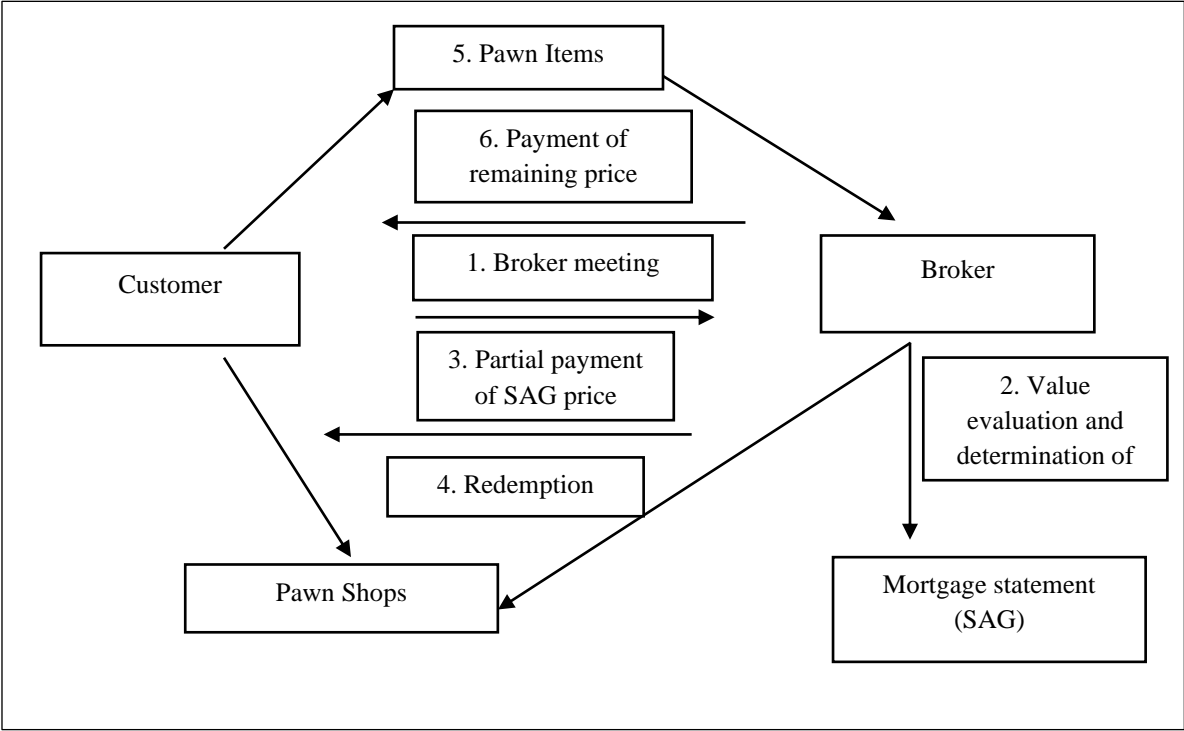


Figure 1: An illustration of Pawnbroker Activities (Mohamad & Ali, 2015)

The proposed model in this paper is based on cash waqf, and such cash waqf will be used in the design of this model to overcome the main challenges faced by the Islamic pawnbroking industry.

The cash waqf investment model can be founded on either a direct cash waqf model or an indirect cash waqf model. Mohsin (2014) says that "direct cash waqf" is a type of donation made by donors in the form of money that will be used directly to develop waqf property. This model has been widely used in Muslim societies. Direct cash waqf is often used to help the poor and those in need (Mohsin, 2016; Shukri et. al., 2019). It can also be used to build and maintain mosques, Islamic schools, and libraries. Indirect cash waqf refers to cash donations that are accumulated and invested before distribution to the beneficiaries (Mohsin, 2014). Under this model, donors contribute directly to the waqf institutions by depositing cash to a specific bank account, and the collected waqf funds are then invested according to Shariah principles (Pitchay et. al., 2018). In turn, the waqf institutions channel revenue from the investment towards humanitarian causes or religious matters.

The proposed model in this paper suggests tapping into cash waqf, whereby cash waqf will be employed to overcome the main challenges ar-Rahnu institutions encounter. First, to raise the required funds, cash waqf certificates will be extended to collect the required funds from individuals, institutions, and government donors. Figure 2 below illustrates the conceptual model.

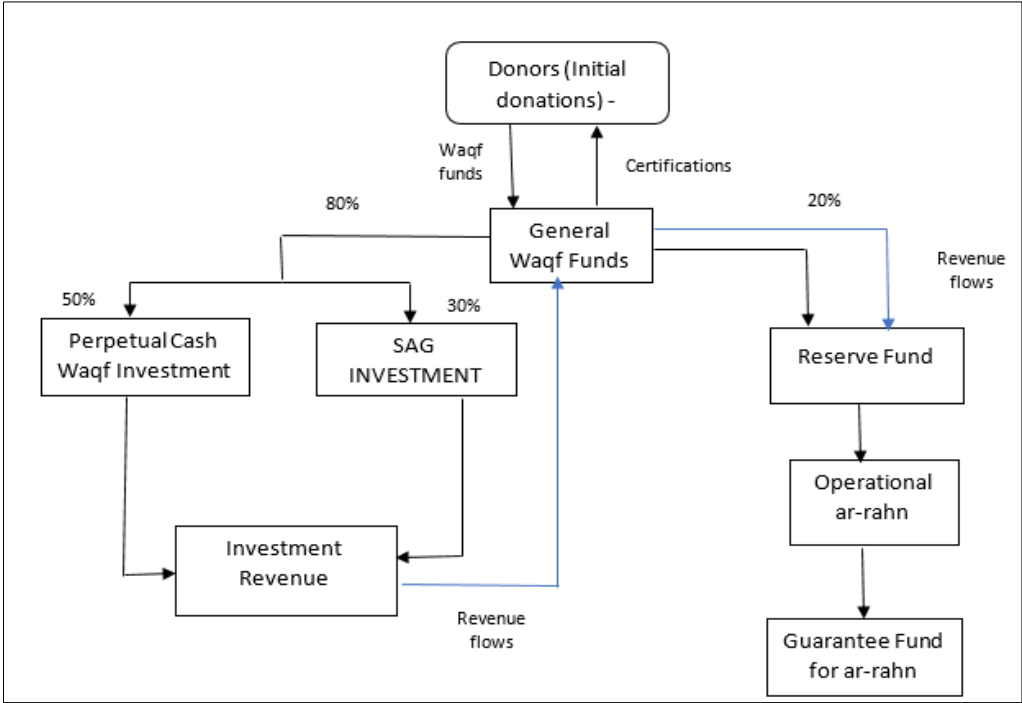


Figure 2: Conceptual Framework of Cash Waqf Investment Based ar-Rahnu (Author, 2023)

This model will employ both temporary and permanent cash waqf to ensure participation by as many people as feasible. The full details of the proposed model are provided in the following points:

1. Cash waqf is accepted from individuals and institutional donors
2. Donor/ waqf founders are giving waqf certificates to prove their contribution (to use on tax exemption or to redeem their cash waqf back as the case in the temporary cash waqf)
3. The collected cash waqf funds are divided into the waqf investment fund and the reserve fund.
4. The objective of the waqf investment fund is to invest the collected cash waqf funds in shariah-compliant projects (by buying SAG from the ar-Rahnu institutions and putting 30% out of the targeted portfolio) and business activities.
5. The objective of reserve funds is to assist ar-Rahnu management fund in maintaining the operational and achieving objectives of shariah
6. Adequate funds must always be maintained in the reserve fund according to the agreed professional threshold
7. Returns generated from the waqf investment must constitute a major source of funds to top up any shortages in the reserve funds

Surplus funds, if any full top-up of the reserve fund, should be channeled to cover the operational expenses; otherwise, a specific percentage of donated funds, such as 5-10%, can be deducted upfront from the principal cash waqf donation upon a clear notification to the donors

to this effect. Additionally, a nominal fee can be charged from ar-Rahnu applicants, and these fees will be directed to the operational expenses.

4.2 Component of the Conceptual Framework

4.2.1 General Waqf Fund (GWF)

The GWF is a pool where all cash Waqf funds are kept. There are two types of cash waqf: permanent and temporary waqf. The donations may come from individual donors, government entities, or institutions. In the structure of GWF, two sub-divisions were established: the Waqf Fund Investment Unit (WFIU) and the Waqf Reserve Fund (WRF). The functions of the GWF are explained as follows:

- a. Issues cash waqf certificates (perpetual and temporary) and collects the funds from the donors
- b. Channel the accumulation of funds to waqf investment fund
- c. Maintain an adequate level of funds in the reserve funds
- d. Conduct feasibility studies on the use of funds among ar-Rahnu institutions
- e. Pay guaranteed amounts to the affected beneficiaries (ar-Rahnu institutions).

4.2.2 Waqf Fund Investment Unit (WFIU)

This unit is established to invest waqf funds professionally, optimally, and effectively in any investment opportunities. The mandate of this unit is as follows:

- a. Design the investment policies and strategies for the fund
- b. Look for potential investment opportunities. It could be in any formation as:
 - Project initiated and managed by the fund
 - Projects are run and managed by external consultants such as government entities and private sectors.
- c. Prepare feasibility studies, make investment decisions, and follow up with investment partners.

4.2.3 Waqf Reserve Fund (WRF)

WRF will constitute roughly 20% of the total WGF. The money from this fund will be used for two purposes:

- a. Guarantee funds that assist ar-Rahnu institutions
- b. Operational expenses incurred by the managing entity

The reserve fund has been built into the model to ensure its long-term viability. It will comprise funds or charities gathered from individual contributors and the income earned by the permanent cash waqf investment. These small-scale gifts are likely to be accepted throughout the year. If the returns on investments don't cover all of the costs and expenses, the reserve fund is expected to help pay for the model's operation. Staff salaries, utility bills, office rent, and other costs may be included. The reserve fund would also hold any extra money that might be made from investments after operational costs have been paid.

As a guarantee to the buyers of SAG, ar-Rahnu institutions should be:

- a. To guarantee that the borrower will pay on the date of payment
- b. To provide a conditional purchase undertaking to purchase the SAG on the repayment date if the borrower fails to repay
- c. To provide a guarantee that the gold as collateral is pure and has a certain quality

The proposed cash waqf investment-based ar-Rahnu model's main goal is to provide shariah-compliant credit guarantees to the ar-Rahnu industry. Waqf institutions can agree with any ar-Rahnu operator to provide this model by purchasing SAG as part of their investment portfolios. The significance of this proposed model stems from its contribution to solving the existing challenges in current ar-Rahnu operations from the shariah perspective and securing an additional source of funding for ar-Rahnu institutions and waqf institutions.

5. CONCLUSION

This paper examined the concepts of ar-Rahnu and cash waqf before delving into the institutional constraints of al-rahnu. To compete with counterparties, Islamic pawnbroking requires an alternative model of investment. This paper demonstrates that the cash waqf investment model discussed by several scholars can be adopted and adapted to the ar-Rahnu operational. The waqf system was established during the Islamic period. It has made significant contributions to many fields, including health, education, and others. In this conceptual model, the idea of suggesting using cash waqf to purchase mortgage statement (SAG) in ar-Rahnu institutions can achieve three outcomes: increasing the value of the ar-Rahnu company, extending the variables of cash waqf investment initiatives, and extending the theory of Islamic social finance through the integration of cash waqf and ar-Rahnu.

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AUTHORS' CONTRIBUTION

WMAFWAR carried out the introduction, literature review, collected the data and performed the data analysis. HM refined the literature review and wrote discussion and implication sections together with WMAFWAR. All authors read and approved the final manuscript.

CONFLICT OF INTEREST

The authors declare that they have no conflict of interest.

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