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THE ROLE OF ZAKAT, WAQF, AND ISLAMIC MICROFINANCE IN ADVANCING SUSTAINABLE DEVELOPMENT IN MALAYSIA

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ABSTRACT

This study investigates the role of Islamic social finance (ISF) instruments, including zakat, waqf, and Islamic microfinance, in promoting sustainable development in Malaysia. The objective is to assess their roles in poverty reduction, financial inclusion, and micro-entrepreneur empowerment while aligning with national development goals and the Sustainable Development Goals (SDGs). The research relied on secondary data collected from government reports, academic literature, policy documents, and institutional case studies (i.e., Waqaf Tali Pancing). The findings indicate that Islamic social finance plays a crucial role in supporting socio-economic development. Zakat helps address basic needs and promotes financial inclusion. Waqf, particularly in the form of cash waqf, supports education, healthcare, and entrepreneurship. Islamic microfinance, notably through programs such as BangKIT, enhances income generation and business sustainability for underserved groups. These findings can guide Islamic financial institutions and NGOs in designing more effective and integrated ISF programs that are aligned with national and global development agendas. The study also proposes integrated strategies for enhancing ISF effectiveness aligned with national development priorities and SDGs.

Keywords: Islamic Social Finance, Zakat, Waqf, Islamic Microfinance, SDGs (Sustainable Development Goals)

INTRODUCTION

Islamic social finance (ISF), which includes zakat, waqf, and Islamic microfinance, is a feasible way to reduce poverty, grow the economy, and enhance equity in countries like Malaysia. These tools adhere to Islamic teachings about helping others, sharing wealth, and supporting the community. This foundation is reflected in the *hadith*: *"When a person dies, his deeds come to an end except for three: ongoing charity (sadaqah jariyah), beneficial knowledge, or a righteous child who prays for him" (Sahih Muslim).* The concept of *sadaqah jariyah* particularly underpins instruments such as waqf and sustainable zakat initiatives, which generate continuous social and economic benefits. In Malaysia, where Islamic finance is well-developed, these tools are increasingly utilised to support the country's development, especially by alleviating poverty, enhancing financial inclusion, and promoting social equity.

To date, the demand for inclusive and value-driven financial solutions has grown amid global emphasis on the Sustainable Development Goals (SDGs). Subsequently, Islamic social finance has become a better alternative to traditional finance in Malaysia, particularly since it helps bridge development gaps. For example, zakat aids the poor, waqf supports community development projects, and Islamic microfinance empowers small business owners especially in rural areas (Dirie et al., 2024).

The principles of Islam (Shariah), which support justice, aiding the underprivileged, and protecting the environment, form the foundation of Islamic social finance (Hassan et al., 2021). Aside from providing monetary aid, Islamic social finance empowers people, particularly the impoverished and those denied from traditional banking systems, by utilising instruments such as zakat, *sadaqah*, waqf, and Islamic microfinance. Even though each tool works differently, they all share the same purpose: to bring justice, compassion, and community support into the financial system. The main goal is to create a more just society where everyone has a chance to grow. These Islamic finance tools are now being used in many countries and not just Muslim-majority nations, which shows that their values and benefits are universal (Kuanova et al., 2021). Islamic finance follows important rules, such as sharing risks, profits, and losses, investing ethically, and not charging interest (*riba*) (Dirie et al., 2024).

One of the prominent tools in Islamic social finance is zakat, which is also the third pillar of Islam. It requires wealthy Muslims to give a portion of their wealth to help those in need. This helps reduce poverty and income gaps. When managed properly through organised systems, zakat can be a powerful way to provide for basic needs and improve the well-being of the community (Embong et al., 2013). Waqf, or charitable endowment, traditionally involves the perpetual dedication of immovable assets for public benefit. In recent times, the cash waqf model has gained traction, allowing monetary contributions to be invested and reinvested in a wide range of sectors. This form of waqf enhances liquidity, supports large-scale collective projects, and historically served as a microfinance tool during the Ottoman Empire (Shahimi et al., 2013).

Islamic microfinance is designed to help low-income individuals by providing Shariah-compliant and interest-free financial assistance. The main objective is to support small businesses through access to financial services, ultimately allowing low-income individuals to earn a living. Although Islamic microfinance currently makes up less than 1% of global microfinance services, it has strong potential to reduce poverty and improve the quality of life (Othman, 2015; Wahab et al., 2023).

Islamic social finance supports the Sustainable Development Goals by funding projects in education, healthcare, and job creation. Tools like zakat and waqf help fight poverty and reduce inequality (Dirie et al., 2024). While challenges like poor coordination, weak management, and lack of awareness persist, they can be rectified through clearer policies, teamwork, and digital tools (Rosman et al., 2022). A past study reported that financial support from Islamic social finance helped women business owners to sustain their businesses during the COVID-19 crisis, and that better partnerships, improved fund management, and training programs are needed to support fair and inclusive growth (Mahadi et al., 2024). Therefore, a broader review underscores the need for stronger institutions, better public understanding, and links to national development plans.

Despite the increased use of these tools, little is known about their effectiveness or potential for improvement. Although past research indicates that Islamic microfinance, zakat, and waqf can bridge the wealth gap and alleviate poverty, more investigation is required to fully comprehend their long-term effects and how they can better support Malaysia's development objectives. This study aims to: (1) examine the role of zakat, waqf, and Islamic microfinance in Malaysia's sustainable development; (2) explore the growth of zakat and waqf and their contribution to poverty alleviation; (3) assess the effectiveness of selected initiatives (i.e., Waqaf Tali Pancing).

This study adopted a qualitative research design based on secondary data and case study analysis. The data were sourced from publicly available and credible materials, including government publications, institutional reports, academic journal articles, and policy documents. Particular emphasis was placed on sources from recognised institutions such as Bank Negara Malaysia (BNM), Jabatan Wakaf, Zakat, dan Haji (JAWHAR), Yayasan Waqaf Malaysia (YWM), and Waqaf An-Nur Corporation Berhad. These documents were selected to ensure both relevance and reliability in assessing the implementation and outcomes of ISF initiatives in Malaysia.

To provide an in-depth understanding of practical applications, this study employed a case-based approach focusing on the Waqaf Tali Pancing program administered by Waqaf An-Nur. This initiative was purposively selected due to its integrated model combining cash waqf, interest-free financing (*qard al-hasan*), skills training, and entrepreneurship support for underserved communities, particularly *asnaf* and the B40 group. It exemplifies the operational potential of ISF instruments in promoting economic empowerment and reducing dependency.

The data were subjected to content analysis to extract key themes related to program design, implementation mechanisms, and socio-economic outcomes. Supplementary materials were retrieved from institutional websites, independent evaluation reports, and media releases that documented the real-time performance of the Waqaf Tali Pancing initiative. This case serves as a representative example of how Islamic social finance can be strategically deployed to support Malaysia's sustainable development agenda. The study offers useful insights for development planners, Islamic financial institutions, and policymakers by examining previous research, official documents, and real-world examples.

ZAKAT AND ITS ROLE IN ECONOMIC EMPOWERMENT AND POVERTY REDUCTION

Zakat aims to reduce poverty and inequality by addressing six essential needs: food, clothing, shelter, education, health, and transportation (Embong et al., 2013). The COVID-19 pandemic heightened economic vulnerability, particularly among debtors struggling to meet basic needs. Zakat institutions (ZI) reported a rise in aid applications from the poor, needy, and *gharimin* (genuine debtors) due to job losses and lack of income. This highlights zakat's vital role in crisis response and offers insights for ZI and Islamic financial institutions (IFIs) to improve future support mechanisms (Yamaludin et al., 2024). In Malaysia, zakat contributes to human development and complements fiscal policy by funding targeted aid and development programs. Increased zakat collection leads to greater distribution, improved recipient income, and enhanced social welfare. It supports long- and short-term programs in education, health, and economic empowerment by addressing both material and spiritual needs (Suprayitno et al., 2017).

Financial technology (fintech) refers to the integration of advanced digital technologies into financial services to enhance accessibility, transparency, operational efficiency, and accountability. It has further enhanced zakat administrations and operations by facilitating seamless collection through online channels, improving beneficiary identification through data analytics, and augmenting governance through digital tracking and reporting systems. Furthermore, digital platforms improve efficiency, transparency, and donor participation by streamlining collection and distribution processes (Ahmad & Yahaya, 2023). Zakat distribution includes several categories: social aid (monthly allowances, housing, medical care, debt repayment), economic support (business capital, taxi leasing, agricultural aid), and education (scholarships). Some recipients have become zakat contributors after business success. Religious and welfare support includes Ramadhan aid, help for religious schools, and legal assistance. Indirectly, zakat funds support institutions like childcare centres, preschools, and *tahfiz* schools (Razak, 2020). Financial inclusion in Islam promotes access to quality financial services, especially for the underserved.

The Islamic financial system emphasises ethics, wealth distribution, and social justice. Zakat, as an obligation, and waqf, as a voluntary endowment, both play crucial roles in supporting the needy and advancing financial inclusion (Abu Seman et al., 2021). In Malaysia, incorporating fintech into zakat management has brought about transformative impacts, with digital platforms and mobile apps improving zakat efficiency, transparency, and accountability, thus benefiting both donors and recipients. However, it also identifies challenges such as cybersecurity threats, digital literacy gaps, and resistance to technological change among traditional institutions (Ahmad & Yahaya, 2023).

WAQF AND CASH WAQF IN SUSTAINABLE DEVELOPMENT

Waqf is a key Islamic institution that promotes social welfare by addressing poverty, unemployment, and inequality. Both property and cash waqf aim to uplift the ummah through socio-economic development (Mahmood et al., 2017). Waqf funds have supported schools, housing, healthcare, and commercial ventures. Agricultural projects, like oil palm farming in Johor and Terengganu, have generated income and reduced dependency on government aid (Rahman, 2009). Cash waqf is increasingly popular for its flexibility. Institutions like YWM and JAWHAR offer low-entry waqf schemes (from as low as RM5), with funds invested in Shariah-compliant sectors. Successful projects include the Terengganu Culinary Academy and waqf-funded hotels that create jobs and promote tourism.

Scholars have emphasised cash waqf's potential in supporting small and medium-sized enterprises (SMEs), education, healthcare, and agriculture (Zakaria & Muda, 2017). Cash waqf is also gaining recognition as a strategic tool for long-term poverty alleviation. Simulations suggest that cash waqf can lift over 500,000 people out of poverty in 30 years and save the government up to RM13 billion. It also improves livelihoods, school attendance, and health access while reducing child labour (Shahimi et al., 2013).

Waqf can be applied across various fields, including education, welfare, the economy, healthcare, farming, and religion, as demonstrated by the implementation of many religious-based initiatives by MAIK (Majlis Agama Islam Kelantan). However, improved management and increased public awareness are necessary for these initiatives to be truly successful. Previous research found that people are more inclined to donate when they have faith in waqf organisations and are aware of how they operate and the advantages they provide to the community (Saufi et al., 2021). Cash waqf run by mosques has already demonstrated positive outcomes in aiding the impoverished in Melaka and Terengganu (Hasan et al., 2019). Waqf can also fund large-scale projects, including the construction of roads, schools, and hospitals (Azrai Azaimi Ambrose et al., 2018). Additionally, it can benefit small businesses by offering equipment and financial support, particularly to low-income families (Iman & Mohammad, 2017). Professional management, close collaboration between organisations, and well-defined, structured policies are necessary for waqf to be more effective (Azrai Azaimi Ambrose et al., 2018).

ISLAMIC MICROFINANCE AND ECONOMIC EMPOWERMENT

The BangKIT Microfinance Program by Bank Islam aims to assist small businesses in Malaysia by offering interest-free loans (*qard al-hasan*) as well as training and advice (Wahab et al., 2023). The program stands as an alternative to individuals who are unable to obtain loans from traditional banks and contributes towards the global objectives of lowering poverty and increasing employment opportunities. Furthermore, women have benefited greatly from Islamic microfinance, which has increased their income, enhanced their business acumen, and enabled them to make better decisions for their families (Othman, 2015). Past research reported a prominent increase in women's confidence, independence, and social respect when they have equitable access to financial support (Al-Shami et al., 2016).

Nevertheless, certain difficulties persist. Islamic microfinance occasionally lacks appropriate Islamic contracts and is not closely linked to other ISF instruments such as zakat and waqf (Hassan et al., 2013). Despite increasing research, its practical impact remains limited due to inadequate policies, missing data, and challenges in implementing the system (Hassan et al., 2021). High expenses, low-quality assets, and credit risks are additional issues (Ibrahim et al., 2016). These challenges can be addressed through the use of cash waqf to finance Islamic microfinance initiatives, which can sustain assistance for the impoverished in the long run. A notable example is Nusa Kapital, a crowdfunding platform that supports small businesses through Islamic contracts like *wakalah* (agency) and *mudarabah* (profit-sharing). This type of model subsequently supports SDGs 8 (Decent Work) and SDG 9 (Innovation and Infrastructure). Moreover, Islamic microfinance can be expanded further through improved technology use, robust government support, and well-defined policies (Ramli et al., 2023). Despite their individual strengths, current literature lacks case-based assessments that evaluate how ISF instruments work in tandem towards the SDGs in real settings. This literary gap is addressed in the current study.

THE ROLE OF ISLAMIC SOCIAL FINANCE AND SDGs

Zakat obligates wealthy Muslims to allocate part of their wealth to those who are less fortunate. It serves as one of the key mechanisms in Islam for reducing poverty and providing aid to those in need. Zakat funds are allocated to six basic needs, including food, housing, health care, education, clothing, and transportation (Embong et al., 2013). The prominence of zakat was particularly evident during the COVID-19 pandemic, where it helped those whose incomes were affected by the crisis (Yamaludin et al., 2024). In Malaysia, zakat is administered in collaboration with the government to offer both short-term aid and long-term development, including scholarships, business start-up services, healthcare, and homes (Razak, 2020). This suggests that zakat not only provides financial support but also promotes kindness, social care, and spiritual development. The integration of digital tools and online services further enhances the zakat collection and distribution processes, making it more convenient and transparent.

Waqf, especially cash waqf, is another key mechanism of Islamic social finance used to fund long-term community projects like schools, clinics, housing, and job creation programs. Previously, waqf mainly concerned building schools and hospitals; today, it continues through modern projects such as waqf-funded hotels, farming projects, and cooking schools like the Terengganu Culinary Academy. These efforts help people find jobs and reduce their dependence on government aid (Rahman, 2009; Zakaria & Muda, 2017). Cash waqf allows anyone to make donations regardless of the amount. These small contributions are collected and invested in Shariah-compliant businesses. If managed properly, cash waqf has the potential to lift over 500,000 people out of poverty in the next 30 years (Shahimi et al., 2013). Waqf can also help small businesses and entrepreneurs by providing capital and facilities, especially for poor or disadvantaged groups (Iman & Mohammad, 2017). However, its success depends on public trust, good management, and community awareness (Saufi et al., 2021).

Islamic microfinance programs, such as BangKIT Microfinance by Bank Islam, advocate global poverty reduction and job creation efforts by offering Shariah-compliant and interest-free loans (*qard al-hasan*) alongside training and guidance to small businesses (Wahab et al., 2023). Research shows that Islamic microfinance improves women's income, decision-making power, and family well-being (Al-Shami et al., 2016; Othman, 2015). However, several issues persist, such as weak coordination between zakat and waqf, limited reach, and management challenges (Hassan et al., 2013; Hassan et al., 2021). Some experts also suggest combining cash waqf with Islamic microfinance to make funding more sustainable and effective (Ismail, 2013). Table 1 illustrates the role of Islamic social finance and its contributions to SDGs.

GROWTH OF ZAKAT AND WAQF AND THEIR CONTRIBUTIONS TO POVERTY ALLEVIATION

The institutional strengthening of zakat and waqf in Malaysia has progressively enhanced their function as strategic instruments for poverty alleviation. Transitioning from their traditional charitable roles, both mechanisms have been formalised into structured components of the national socio-economic development agenda. Their responsiveness during the COVID-19 pandemic further demonstrates their potential in delivering both immediate assistance and sustainable empowerment. This section examines empirical trends in zakat and waqf distributions, emphasising their evolving role to reduce poverty in alignment with the Sustainable Development Goals (SDGs 1 and 8).

Table 1: The Role of Islamic Social Finance and Its Contributions to SDGs

Instrument	Role	Contribution to SDGs	Evidence	Source
Zakat	Redistributes wealth and provides financial aid to the poor, needy, and debtors.	SDG 1, SDG 10	Increased aid applications during COVID-19; supports food, education, healthcare, transport.	Embong et al. (2013); Yamaludin et al. (2024)
Zakat	Supports socio-economic programs like education and business aid.	SDG 4, SDG 8	Human development programs improved income and reduced dependency on government aid.	Suprayitno et al. (2017)
Zakat	Enhances efficiency, transparency, and participation through fintech.	SDG 9, SDG 16	Online zakat platforms improve management and reach, but face digital literacy and cybersecurity challenges.	Ahmad & Yahaya (2023)
Waqf	Long-term poverty alleviation through endowments for education, health, agriculture, and business.	SDG 1, SDG 3, SDG 4, SDG 8	Waqf projects include hotels, culinary academies, and farming.	Zakaria & Muda (2017)

Waqf	Supports infrastructure and social services development.	SDG 9, SDG 11	Waqf is used for roads, schools, mosques, and hospitals.	Azrai Azaimi Ambrose et al. (2018)
Waqf	Builds trust and participation through professional management and awareness campaigns.	SDG 17	Trust and understanding increase individual contributions to waqf.	Saufi et al. (2021)
Cash Waqf	Flexible and inclusive tool for pooling funds for impactful investments.	SDG 1, SDG 8	Simulations show it can lift 500,000 people from poverty in 30 years and save RM13 billion.	Shahimi et al. (2013)
Cash Waqf	Managed by mosques to support the poor and provide income-generating tools.	SDG 8	Successful cases in Melaka and Terengganu.	Hasan et al. (2019)
Islamic Microfinance	Provides Shariah-compliant financial access for underserved individuals, especially women.	SDG 1, SDG 5, SDG 8	Qard al-Hasan loans and business training through the BangKIT program support empowerment and business survival.	Othman (2015); Wahab et al. (2023)

Islamic Microfinance	Boosts confidence, income, and decision-making power for women.	SDG 5	Women participants report higher self-esteem and independence.	Al-Shami et al., (2016)
Islamic Microfinance	Faces issues like credit risk and poor integration with other ISF tools.	SDG 9	Requires policy support, better contracts, and integration with waqf/zakat.	Hassan et al. (2013); Ibrahim et al. (2016)
Islamic Microfinance	Innovations in Islamic crowdfunding improve access to capital.	SDG 8, SDG 9	Nusa Kapital uses mudarabah and wakalah contracts to support SMEs.	Ramli et al. (2023)
Islamic Social Finance (General)	Promotes ethics, justice, and financial inclusion; complements national fiscal policies.	All 17 SDGs	Used globally in both Muslim and non-Muslim countries for sustainable development and inclusive finance.	Hassan et al. (2021); Kuanova et al. (2021)
Islamic Social Finance (General)	Addresses coordination and governance issues with technology and policy improvements.	SDG 16, SDG 17	Emphasis on teamwork, stronger institutions, better public understanding, and digital tracking.	Mahadi et al. (2024); Rosman et al. (2022)

Figure 1 shows that Malaysia's poverty rate rose from 5.6% in 2019 to 8.4% in 2020 due to the COVID-19 pandemic, before slightly declining to 8.2% in 2021 and then to 6.2% in 2022 as the economy recovered. Figure 2 provides further details on the percentage of absolute poverty in Malaysia by state. The data suggest that during this crisis, zakat and waqf institutions responded swiftly, filling gaps left by government aid. These efforts not only provided immediate relief but also highlighted the long-term potential of Islamic social finance in supporting the Sustainable Development Goals, particularly in reducing poverty (SDG 1) and promoting economic growth (SDG 8).

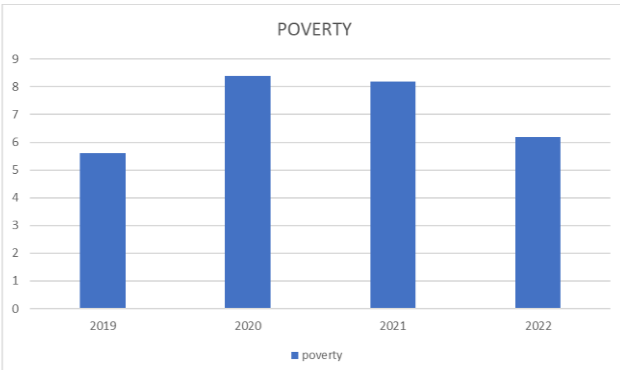

Figure 1: Percentage of Absolute Poverty in Malaysia. *Source: Department of Statistics Malaysia (DOSM)*

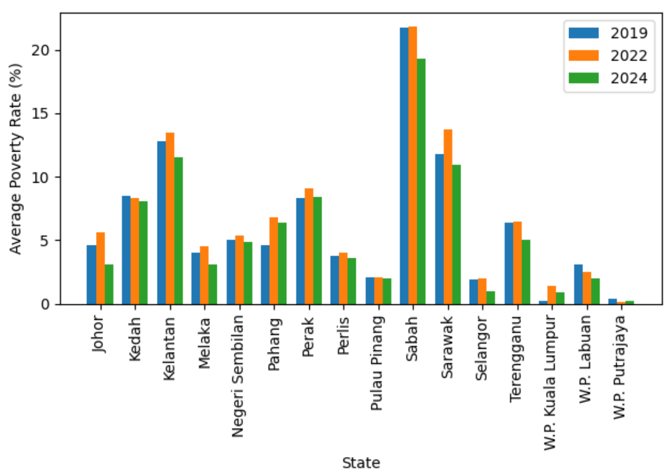

Figure 2: Percentage of Absolute Poverty in Malaysia by State. *Source: Department of Statistics Malaysia (DOSM)*

As illustrated in Figure 3, the distribution of zakat has increased during the pandemic. COVID-19 resulted in the loss of income for many Malaysians. Subsequently, zakat institutions saw a major increase in the number of applications, especially from the poor (*faqir*), the needy (*miskin*), and those with heavy debts (*gharimin*) (Yamaludin et al., 2024). In response to the issue, zakat institutions went beyond the provision of cash and food; they also offered support, such as business grants, start-up capital, and education assistance, to help people rebuild their lives (Razak, 2020).

Moreover, the use of fintech facilitates an easier and faster distribution of zakat, especially amid restricted movement during lockdowns. Online platforms helped make the process seamless, transparent, and efficient while encouraging more people to donate (Ahmad & Yahaya, 2023). These digital tools also enabled the implementation of special programs, such as the SME Caring Package and AsnafCare, aimed at strengthening the economy of the poor and vulnerable groups (Suprayitno et al., 2017).

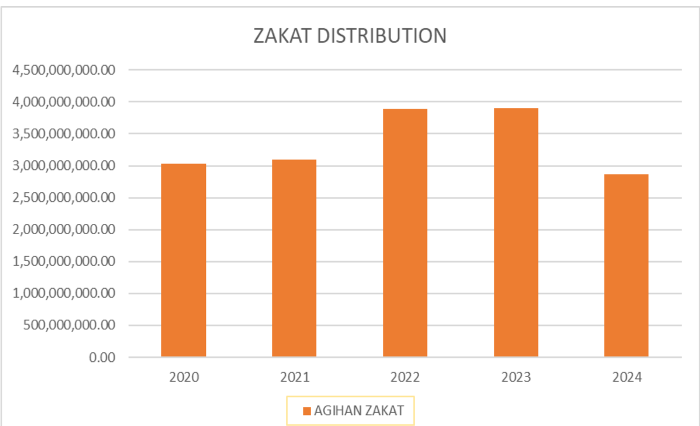

Figure 3: Zakat Distribution in Malaysia. *Source: Jabatan Wakaf, Zakat, dan Haji (JAWHAR)*

As depicted in Figure 4, waqf usage began to grow significantly during the pandemic and reached the highest level in 2023. It was mainly used to help people in need. Between 2018 and 2022, Yayasan Waqaf Malaysia (YWM) introduced many types of waqf products. They initially focused on general waqf through Dana Wakaf Am and later launched more targeted waqf funds like Dana Wakaf Khas (e.g., Wakaf Air and Wakaf Cakna Armalah), Sijil Wakaf (for health and education), and Dana Wakaf Bertempoh, which supports entrepreneurs through the iTEKAD program.

Cash waqf has become a flexible and useful tool in Malaysia's Islamic social finance system. While traditional waqf often involves land or buildings, cash waqf allows people to regularly donate small amounts of money, which can be combined and invested in Shariah-compliant projects that support important sectors like education, housing, and healthcare, ultimately benefitting both social and economic development (Ismail Abdel Mohsin, 2013).

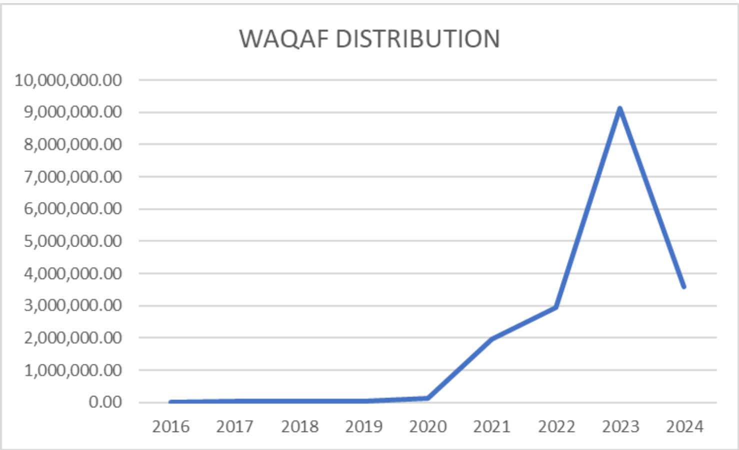

Figure 4: Waqf Distribution in Malaysia. *Source: Yayasan Waqaf Malaysia*

During the COVID-19 pandemic, cash waqf proved to be highly effective because it allowed funds to be collected and distributed quickly to those in need. Programs like Tabung Musa'adah JAKIM-YWM and Waqaf Bencana illustrated how cash waqf could respond fast and efficiently during a crisis (Shahimi et al., 2013). Its flexible nature makes cash waqf useful not only for emergencies but also for long-term community development and support. According to Hasan et al. (2019), waqf programs have helped reduce poverty and improve people's lives. Some waqf funds are specifically designed to give maximum benefit to the community. For example, Dana Wakaf Bertempoh supports small business owners through the iTEKAD CIMB Rider program, which utilises profits from investments to help them grow. On the other hand, Dana Manfaat Wakaf uses money earned from renting properties and other investments to fund welfare programs for the poor and needy (Rahman, 2009; Zakaria & Muda, 2017). Table 2 provides details regarding the distribution of waqf in Malaysia based on the categories and programs.

Table 2: Distribution of Waqf in Malaysia

Category	Waqf Program/ Fund	Year
1. Dana Wakaf Am	▪ Agihan Wakaf Tunai Malaysia kepada Majlis Agama Islam Negeri & Komuniti	2018-2024
2. Dana Wakaf Khas	▪ Wakaf Perkhidmatan Air (Wakaf Air) ▪ Wakaf Tabung Cakna Armalah ▪ Wakaf Masjid Hijau ▪ Wakaf Makmal Bahasa Digital Bergerak	2021-2024
3. Dana Wakaf Bertempoh (Muaqqat)	▪ Program iTEKAD CIMB Islamic – Rider Entrepreneur	2022
4. Dana Sijil Wakaf	▪ Sijil Wakaf Tunai Kesihatan ▪ Sijil Wakaf Tunai Pendidikan	2022-2024
5. Dana Program CSR Prihatin	▪ Tabung Wakaf Bencana ▪ Tabung Musa'adah JAKIM-YWM ▪ Sumbangan bantuan COVID-19, bencana, NGO, pelajar, imam, OKU, asnaf, dll.	2020, 2021, 2022
6. Dana Manfaat Wakaf	▪ Agihan Dana Manfaat Wakaf (from investment returns & rental income) ▪ Supports health, livelihood, education, and welfare aid for individuals & micro-entrepreneurs	2018–2022
7. Wakaf Prihatin & i-Care	▪ Program Agihan Wakaf Prihatin ▪ Program Agihan Sumbangan Mesra Wakaf Prihatin & Wakaf i-Care	2018, 2019
8. Dana Bantuan Segera	▪ Bantuan Tunai Kecemasan (e.g., health crisis, accident victims, rental arrears)	2019, 2020

THE CASE STUDY OF WAQAF AN-NUR: WAQAF TALI PANCING

The Waqaf Tali Pancing (WTP) program by Waqaf An-Nur Corporation Berhad represents an innovative and integrated model of Islamic social finance aimed at addressing poverty and promoting sustainable livelihood development. It operationalises the integration of cash waqf, Shariah-compliant financing mechanisms, and entrepreneurship development with the core principles of Islamic social finance and the Sustainable Development Goals.

The program is grounded in the philosophy of long-term empowerment rather than short-term relief. This is consistent with the Qur'anic injunction in *Surah Al-Jumu'ah* (62:10): *"When the prayer has been concluded, disperse within the land and seek from the bounty of Allah",* which encourages believers to disperse and seek the bounty of Allah through productive effort. Specifically targeting the underprivileged segments of society (i.e., *asnaf*, unemployed, and B40 income group), the program offers a comprehensive package that combines financing, capacity-building, and support services. The operational mechanism of the Waqaf Tali Pancing Program is presented in Figure 5.

Integrated Financial Mechanism

The financial component of WTP, known as Dana Niaga, provides tiered Shariah-compliant financing options that are tailored to the maturity level of micro-entrepreneurs. These include:

i. Qard al-Hasan (Benih Niaga): A small-scale, interest-free loan of up to RM1,500 intended for part-time or nascent entrepreneurs, with a repayment tenure of 15 months.
ii. Qard al-Hasan Berperingkat: A financing option between RM3,000 to RM5,000 offered to entrepreneurs with an operating track record, repayable over 24 to 25 months.
iii. Murabahah Tawarruq: Structured financing of RM7,000 to RM20,000 for more experienced entrepreneurs, subject to a fixed profit rate (4%–6%) and a longer repayment horizon of 3 to 5 years.

These options reflect a progressive and inclusive financing structure designed to facilitate financial access for various categories of micro-entrepreneurs, without collateral and within the bounds of Shariah compliance.

Capacity Building through Pusat Waqaf Komuniti (PWK)

Complementing the financial support is the establishment of Pusat Waqaf Komuniti (Community Waqf Centres), which serve as a platform for vocational training and entrepreneurship development. Notable programs include:

i. Tailoring Program: Implemented in Pasir Gudang and Ulu Tiram, this initiative equips participants with practical sewing skills and incorporates post-training incubation support to facilitate microenterprise establishment.
ii. Barber Training Program: Since its inception in 2018, a total of 114 participants have undergone skills training in hairdressing, many of whom have transitioned into self-employment.

The program outcomes demonstrate a positive socio-economic trajectory. For instance, in 2018, 16 participants were reported to have successfully established their own businesses, with the number rising to 39 in 2019. As of 2025, total financing had reached RM2.02 million with 637 participants. This suggests a measurable impact in terms of income generation, self-reliance, and upward mobility among the B40 population.

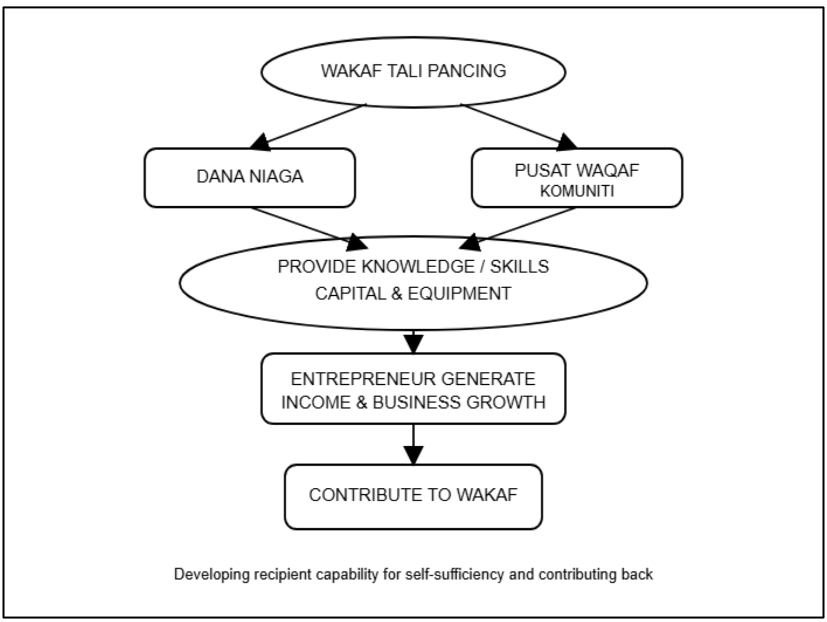

Figure 5: Operational Mechanism of the Waqaf Tali Pancing Program

Operational Framework and Impact Pathways

The WTP program follows a closed-loop operational model that reinforces financial sustainability:

i. Cash waqf contributions are mobilised from individual and institutional donors.
ii. The pooled funds are deployed through *qard al-hasan* or other Islamic financing models.
iii. Beneficiaries receive entrepreneurship training and business mentoring.
iv. Repayments are recycled into the fund for new cycles of support.

This mechanism exemplifies the potential of Islamic social finance to operate as a self-sustaining ecosystem, contributing to long-term poverty alleviation and socio-economic development.

Strengths and Developmental Outcomes

The WTP model illustrates several key strengths:

i. Empowerment Orientation: The program promotes independence rather than dependency, aligning with Islamic principles of *ta'awun* (mutual support) and *istiqlal* (self-sufficiency).
ii. Financial Inclusion: By employing interest-free and profit-sharing instruments, the program facilitates access to capital among financially excluded populations.
iii. SDG Alignment: The program contributes meaningfully to SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 5 (Gender Equality), particularly through the inclusion of women and youth in entrepreneurship initiatives.

Operational Challenges, Limitations, and Future Direction

Despite its merits, the WTP program encounters several challenges. First, its current scale remains limited, with outreach restricted to a few hundred participants annually due to resource constraints. Second, the lack of a centralised impact-monitoring framework impedes the systematic evaluation of long-term outcomes. Third, institutional coordination between zakat, waqf, and microfinance entities remains weak, resulting in operational silos that hinder holistic program implementation.

The WTP case highlights the strategic potential of integrated Islamic social finance models in promoting inclusive economic development. To enhance impact, the following measures are recommended:

i. Establish formal partnerships between waqf institutions, zakat authorities, and Islamic financial institutions to consolidate resources.
ii. Develop a centralised digital dashboard to track beneficiary outcomes, repayment performance, and reinvestment cycles.
iii. Encourage empirical studies and impact assessments to inform evidence-based policy and program design.

Islamic social finance in Malaysia has strong potential but still faces several challenges. One major issue is that zakat, waqf, and Islamic microfinance are managed separately, making it hard to combine their strengths and fight poverty more effectively. Furthermore, public awareness remains low, resulting in low involvement and contribution from society. There are also too many agencies doing similar work, causing confusion and wasting resources. On top of that, there is no central system to track data, making it hard to measure progress. As a result, some of the poorest, especially in rural areas, may miss out on needed support.

CONCLUSION

This study examines how Islamic social finance, especially zakat, waqf, and Islamic microfinance, can support sustainable economic growth in Malaysia. These tools have shown to be effective in reducing poverty, supporting low-income groups, and helping small business owners succeed. One illustrative case is the Waqaf Tali Pancing program, which demonstrates how creative and well-planned initiatives can promote financial independence among the B40 group. The paper contributes to the Islamic social finance literature by highlighting case-based integration mechanisms that support SDG-oriented outcomes.

Findings indicate that zakat helps meet basic needs and includes more people in the financial system, especially during tough times like the COVID-19 pandemic. Cash waqf gives flexible and long-term support for education, healthcare, and small businesses. Islamic microfinance, when combined with training and mentoring, creates good chances for people, especially women, to improve their income and enhance their socio-economic status. The descriptive statistics highlight strong resource mobilisation, rapid participant growth, and measurable early economic benefits. These outcomes demonstrate how Islamic social finance can function as a sustainable financing mechanism for community upliftment and directly contribute to SDG-aligned development pathways.

This study recommends establishing a central Islamic Social Finance Authority to coordinate zakat, waqf, and microfinance programs, improve public awareness, and develop digital tools for integrated impact measurement. From a policy perspective, the findings highlight the need for a more integrated approach in managing zakat, waqf, and Islamic microfinance, supported by centralised data systems and outcome-based performance tracking to align with national and global development goals.

This study applied secondary data analysis in a descriptive and exploratory manner without empirically testing the relationship between Islamic social finance and sustainable development outcomes. As a result, the findings offer conceptual insights but lack analytical generalisability. Future research should incorporate empirical designs, such as quantitative analysis or mixed methods, to examine causal relationships and measure impact more robustly. Researchers are also encouraged to collect data from multiple countries to compare practices, challenges, and successful models that could be applied in Malaysia. Using larger datasets and involving different ISF institutions will help improve the accuracy and depth of the findings.

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