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A Conceptual Model for Inter-State Corporate Waqf Financing for Higher Learning

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Abstract

Higher education is over dependent on public funds, cash endowments and business contributions which are non-perpetual and may only concern the current and immediate future generations.A resource-based corporate waqf to develop and sustain the higher education sectorwill be explored in this paper.Theresource-based (from output of harnessing water, energy, land banks and forests) corporate waqf financing are by itself inherently perpetual and sustainable. However, the conventionaltheory of perpetual resource flows across state's borders may constrain the inter-state flow of waqf funds. An Islamic economic theoretical framework of resource-based corporate waqf financing is explored in this study. The optimization of cost-effective allocation of burdens of responsibility between many sources (power generators) and receptors (higher education institutions, students) of corporate waqf is modelled. A literature review of Islamic approachesreveal for example, the Islamic principles of *Al-Hisbah* (administration of public interest) that can minimize the burdens to be shared by the inter-state sourcesand receptors in the inter-state model.

Keywords: Natural resources; Corporate waqf; Resource economics; *Al-Hisbah*; Endowments

Introduction

The financial problems of higher education is in its increasing costs of the voluminous number of students intake each year and the need for more sophisticated and modern educational facilities. The sources of funds are limited for public allocations and private debts. Higher education is over-dependent on public (government securities, stocks and bonds) and cash endowments (waqf of shares) in terms of corporate social responsibility (CSR) as business contributions which are non-perpetual and may only suffice for the immediate usage of the current and immediate future generations (Cizakca, 2011).

In an attempt to counter the problem of non-perpetual contribution to finance higher education, owners of sustainable and perpetual resource-based hydro-power plant may voluntarily dedicate a portion of its net revenue to *Waqf 'Amm,* which means a "dedication in perpetuity of the capital and income of an asset (viz. *mawquf*), recognized by Islamic Law" (Mahamood, 2006; p.16). This contribution was for the purpose of financing the public good of higher education. The problem happens whenpart of the waqfwould be allotted for the purpose of financing students of an institution of higher education in a neighboring state. It implies inter-state waqf financing from the waqfsource of a state to thewaqfreceptors orbeneficiaries of another state across the state boundaries.The uniqueness of this issue in Malaysia is because the State Islamic Religious Council (SIRC)orthe "Majlis Agama Islam Negeri" has vested rights for all *mawquf* within the state (Enactments, Ordinance & Acts for *Provisions of Wakaf*; State Enactments 1978; 1962; 1986; 1994; 1991; 1991; 1991; 1993; 1992; 1964; 1992; Sarawak Ordinance, 1954; FTs Act, 1993). The administration of the waqf revenue of the *mawquf* power plant would make its administration to be under the purview of the State Waqf Control Committee (Perak Enact.1992).Although the SIRC acts as a corporate body, its financial, legal and administrative constraints would make it almost impossible to manage a sophisticated hydro power plant *mawquf* utilizing the natural resources of water, let alone the complicated mechanics of transferring a certain amount of waqf from the *mawquf* to another state.

In addition, while all the Enactments above are based on the *Shafi'i* School of Law which is inherently rigid, the SIRC of FTKL (Federal Territory Kuala Lumpur) applied *Istibdal* in the administration of *awqaf* affairs. The purpose

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is to solve the problems of implementing the developments of *awqaf* assets, whilst honouring the intention of the founders in their deeds. *Istibdal*, though follows the*Hanbali* School of Law and only 'allowed' by the Mufti of FTKL in a general *fatwa* (Gazette, 1994), it is to improve profits and investments to the *awqaf* assets concerned on condition that they serve the immediate need and the welfare of the Muslim *ummah* (Baitulmal, 1999).

Although the Yayasan Waqf Malaysia, created in February 2008 acts as a national-level entity embracing Federal and State Islamic Religious Councils (SIRCs), its power is very limited. Its role has become merely for raising public awareness of waqf and promoting the waqf concept to be more relevant to contemporary needs. In fact, by law it cannot possibly supersede the "SIRCs of each state that have been legally appointedby their respective legislations to supervise all awqaf assets and be responsible for their development and management" (Mahamood, 2006).

The perpetual resource-based hydropower plant may be a corporate waqfentity probably as part of or a subsidiary of the SIRC. The intentionisfor the resource-based *mawquf* to be a sole vehicle to finance the higher education sector within the state and on inter-state basis. Suchcorporate waqf financing in Malaysia (such as the Johore-based Waqaf AnNur Corporation Berhad) is "different from the waqf of shares and equity, it is a full fledged, autonomous corporation and waqf enterprise itself" (Hashim, 2013). It may be one of the "Islamic reforms in economic and financial institutions in the past 25 years which are followed by very important developments in supporting areas namely in the education and legal spheres" (Haneef, 2013). However, similar to zakat, corporate waqf financing does not have a coherent Islamic economicsframework for development (Haneef, 2013).

Thus, the study of inter-state waqf flows will not only sanctify the jurisdictions of the State over its natural resources, but also allow waqf financing across State boundaries. A conceptual inter-State model will be explored, simulated and the initial results will be discussed in this paper. The model will be built on multi-source *mawquf* corporate waqf financing of multi-receptors of Waqf namely the institutions of higher learning between two States, based on the principles of Islamic economics. Thesewaqf inter-state flows are monetized from the sales of the perpetual resource-based output of harnessing water, energy, land banks and forests.

The Inter-State Waqf Conceptual Model

The current economic theoretical frameworks may have the provision of waqf in higher education, but the problem includes that which is based on the assumptions of mainstream neo-classical economics (Haneef, 2013). These assumptions may not be in-line with thecontemporary Islamic worldviews of moderation or w*assatiyah* (Hassan, 2011). They may not take into account waqf beneficiaries who are not just Muslims, but also the non-Muslims through the unwritten social contract of Muslims (*Aqd al-Dhimmah*) and non-Muslims (*Aqd al-Musta'man*) in a peaceful multi-religious society (El-Muhammady& El-Muhammady, 2009). In addition, the current economic theory of perpetual resource flows remains constrained by the lack of interest by the affected parties to come into terms for burden sharing of resource production despite certain structural adjustments (Norgaard & Howath, 1991). An approach to this problem may be through a critical look of current economic theories to be based on an Islamic framework. In the case of Malaysia, the approach may also take into account the inter-state issues of how 'rich' states could assist 'not-so-rich or poor states'. At the global level, this approach could be applied to rich OIC nations and not so rich/poor OIC nations. An Islamic economic theoretical framework of inter-state resource-based corporate waqf financing is explored. It would also examine the attributes of the economic agents, their goals and meanings (Haneef, 2013). In short, the Islamic purpose of waqf financing in higher

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education is "good governance with *Tadbir* and *Adab* encompassing all the elements that are deemed primary and necessary for such governance" (Zaidi & Sani, 2012).

As an initial conceptual study, a two-state dynamic mathematical model of inter-state corporate resource-based waqf burden sharing is proposed. The dynamic waqf simulation model between multi-sources of *mawquf* and multi-receptors would be used to formulate the waqf transfer function. The waqf wealth may presumably flow between states with inter-state burden sharing factored in with state costs such as resource premiums and transfer chargesas part of its governance by the SIRCs as shown in the Inter-State Dynamic Waqf Simulation Model for hypothetical States A and B in Figure 1 below.

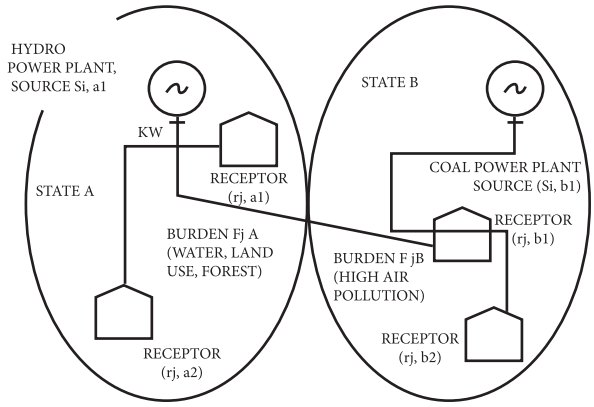

Figure 1. Conceptual Modelof Two-State Inter-State Waqf Dynamic Flow

The objective function of the Inter-State Resource-based Corporate Waqf Model above is the maximization of waqf flow (K*r*) to the receptor between the source (S*i*) and the corresponding receptor (r*j*) by modulating theresource burdens (F*j*) to be shared between State A and State B respectively. An optimal Waqf Transfer Function (C*ij*)may be discovered with maximization of objective function of the model being achieved. This is illustrated in Figure 1 above. State A has a hydropower plant *mawquf* as a source (Si, a1) to two within State A Receptor (rj, a1) and Receptor (rj, az) and to State B Receptor (rj,b1). At the same, time State B has a coal-fired power plant *mawquf* as a source (Si, b1) with State B Receptor (rj, b2). State A has the burden (Fj,A) of utilizing water, land and forests in order to harness the hydro resources to produce electricity. Meanwhile, State B bears the burden of high air-pollution (Fj, B). Burden sharing could be State A reciprocating to State B (e.g., 1-(Fj,A)/(Fj,B) or 1-(Fj,B)/(Fj,A)).

As shown in Figure 1 above, (K*r)* is at the receptor, (C*ij)* is the corporate waqf transfer function that translates the costs of resource at source (S*i,a1)* in State A (*that include the costs of State A premiums for water use, land conversions, forest revenue, ownership transfers, etc.*) into the costs of burden/equity to be shared by receptor (r*j, b1) in State B.* These are factored into the costs of corporate waqf financing for higher education to the receptors. This means that the receptors may receive the nett amount waqf flow after subtracting these costs.

In this context, an Islamic economic theoretical framework of resource-based corporate waqf financing is explored for cost-effective allocation of waqf by optimizing the burdens of responsibility amongs the inter-state sources and resources that can be represented by the Equation 1.1 shown below [Tietenberg, 2006]:

$$Kr=\{\sum(Cij.Fj)+B\} \quad \text{[Equation 1.1]}$$

The number of receptors *r* can be 1, 2, 3,…j. The source *i* may have to bear the burden that incorporates its effect on all receptors. Various Islamic economic concepts such as *Al-Hisbah (*Administrating public interest*)* (IbnTaimiyyah) and *Al-Adalah* (Justice)*, Al-Khayr* (Fairness, Equity)*, AdabTadbir* (Good Governance) etc., that depict an Islamic economic worldview may be applied to optimize *Fj,* or the burden/equity to be shared by receptors *i* and *j*.

Methodology

Multi-source *mawquf* and multi-receptors of selected states and their reactions to the burden-sharing on resources of land, water and forest

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products between states form the basic stake holders of this model. The method would be to initially estimate voluntary 'act of giving' in the Islamic theoretical framework for corporate waqf financing. This would involve using a conceptual model for inter-state utilization of natural resources and resource-based waqf financing for higher education.

The method of scenario analysis is used because of uncertainty and long period of legislative process before the *mawquf* of an intended asset or the waqf amount is tranferred. The discovery of the corporate w*aqf transfer function* and the *optimum burden sharing* between states may contribute to the development of perpetual resource-based corporate waqf:

Scenario A: The amount of waqf from the assigned *mawquf* will be counted into the amount of waqf to be transferred from the Source (Si,A) in State A.Assuming that there is no burden to be shared Fi=0, Fj=0 between the States A and B, then the waqf transfer function is Cij = 0.05 is minimal, receptor amount rj=0, the value of Waqf 'Al-Amm= 0. Therefore, the objective function Cij reflects the true value of the *mawquf* available.

Scenario B: Applying the Principles of *Al-Hisbah* only some of the receptors in State B may be eligible for the amount (Kr) to be transferred to them as inter-state from sources (Si, A) in State A. The burden to be shared will be at Source (Si, A).

Scenario C: Without applying *Al-Hisbah*, all the receptors are opened for waqf transfer function regardless of their status, with some within State A and others outside State A. The waqf transfer amount may reflect maximum/minimum transfer of waqf that is transferrable to the beneficiaries in the receptors. The objective function (Kr) for each scenario may differ and they are used to determine optimality of the burdens to be shared.

Scenario A: Receptors = 0, Waqf Function = 0, Burden Sharing = 0
Objective Function = RM 62.26 million/year

FORECAST RESOURCE-BASED CORPORATE WAQF		rm	Receptorj	Waqf trf function	Burden sharing	Waqf setahun
1. WAQF FROM SALES OF RAW WATER		100000000	0	0.05	0	5000000
2.WAQF FROM SALES OF ELECTRICITY	Source i		Receptorj	Cij	Fj	Kr
2.1. HYDRO POWER (4 cent/kwh)	mw	rm				
a.PLANT A (3000hour/year)	100	12000000	0	0.05	0	600000
b.PLANT B (3000hour/per year)	30	3600000	0	0.05	0	180000
c.PLANT C (3000jam/per year)	20	2400000	0	0.05	0	120000
d.PLANT D (6000jam/per year)	30	7200000	0	0.05	0	360000
2.2. THERMAL POWER (7 cent/kwh)						
a. COAL-FIRED PLANT (8000hour/year)	1000	560000000	0	0.1	0	56000000
				Yearly Total Jumlah tempoh hayat		62260000

Scenario B: *Al-Hisbah* applies to State B Receptors = 3, State A Receptors = 2, Waqf Function = 0.3, Burden Sharing→0.2 (Hydro), Burden Sharingà 0.35 (Coal) Objective Function = RM 168 million/year

FORECAST OF RESOURCE-BASED CORPORATE WAQF		rm	Receptorj	Waqf trf function	Burden sharing	Waqf setahun
1. SALES OF RAW WATER		100000000	0	0.05	0	5000000
2.SALES OF ELECTRICITY		Source i	Receptorj	Cij	Fj	Kr
2.1. HYRO POWER RESOURCE (4 sen/kwh)	mw	rm				
a.PLANT A (3000jam/tahun)	100	12000000	0.15	0.3	0.2	3600000
b.PLANT B (3000jam/setahun)	30	3600000	0	0.05	0.2	180000
c.PLANT C (3000jam/setahun)	20	2400000	0	0.05	0.2	120000
d.PLANT D (6000jam/setahun)	30	7200000	0.15	0.4	0.2	2880000
2.2. THERMAL POWER RESOURCE (7 sen/kwh)						
a. COAL-FIRED (8000jam/tahun)	1000	560000000	0.1	0.3	0.35	68000000
			Jumlah setahun			179780000
			Jumlah tempoh hayat			

Scenario 3: No *Al-Hisbah* applied State B Receptors = 5, Waqf Function = 0.3, Burden Sharing→0.5 (Hydro), BurdenSharing→0.35 (Coal); Objective Function = RM 125 million

UNJURAN WAQF KORPORAT ATAS HASIL SUMBER ALAM NEGERI PERAK

FORECAST OF RESOURCE-BASED WAQF	rm	Receptorj	Waqf trf function	Burden sharing	Waqf setahun
1. SALES OF RAW WATER	100000000	0	0.05	0	5000000
2. SALES OF ELECTRICITY	Source i	Receptorj	Cij	Fj	Kr
2.1. HYDRO POWER (4 sen/kwh)	mw	rm			
a.PLANT A (3000jam/tahun)	100	12000000	0.15	0.3	0.5	3600000
b.PLANT B (3000hrs/year)	30	3600000	0.18	0.3	0.5	1080000
c.PLANT C (3000jam/setahun)	20	2400000	0.25	0.3	0.5	720000
d.PLANT D (6000jam/setahun)	30	7200000	0.15	0.3	0.5	2160000
2.2. THERMAL POWER (7 sen/kwh)						
a. COAL-FIRED PLANT (8000jam/tahun)	1000	560000000	0.2	0.2	0.35	112000000
		Jumlah setahun			124560000	
		Jumlah tempoh hayat				

Results & Discussion

The results indicated the minimization and maximization of the objective functions of available waqfflow from State A to State B with the increase in burden sharing and effects of applying *Al-Hisbah*. When burden sharing is none, that is, without receptors (beneficiaries), the waqfflow is about RM 62 million. When burden sharing between State A and State B increases to 0.2, with the application of *Al-Hisbah* on three State B receptors, the objective function of waqfflow reaches RM 168 million. However, when burden sharing increases further to 0.5 with no *Al-Hisbah* applied to fiveState B receptors, the objective function decreased to RM 125 million. This indicates that an optimal level of burden sharing can be achieved by modulating the burden sharing and the application of *Al-Hisbah* is selecting State B receptors. The effect of State B receptors is the high costs of State A premiums and transfer costs.

The motivation of using Islamic Principles such as *Al-Hisbah* is to maximize efficiency ofAwqaf institution, which is mainly for social welfare and the development of the society as a

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whole; hence, it is generally seen as a non-profit institution. The non-profit activities require the initial asset to generate an income stream and only the income portion over and above the initial sum can be used for benevolent activities.

Al-Hisbah is the proper administration of the benevolent activities which can cover health, education and research activities, economic and socio-economic projects, provision of infrastructure facilities, public utilities and goods. Using *Al-Hisbah*, initial assets of inter-state corporate waqf that generates income for the benefit of the public need to be selective for beneficiaries across the State boundaries. Some beneficiaries may incur high costs of inter-state transfer and premiums that could reduce the nettwaqf flow across the State border.

Conclusion

This paper reports a preliminary finding of a conceptual inter-state waqf model for financing higher education institutions within and across the states. There is a need to study in greater details of inter-state model such as the social and environmental accounting flows, *Istibdal* for transfer efficiency and the *maqasibshariah* of burden sharing. The true dynamic inter-state model will be based on the real-time inter-state power systems analysis that has been used to determine optimal pricing. The Islamic principles of *Al-Hisbah, Al-Adalah, Al-Khayr*need to be studied further so that waqfflows to finance the appropriate higher education institutions can be efficient and effective. It would then become an important component of the fair and just redistributive system in the Islamic socio-economic order.

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