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MECHANISMS FOR BUILDING WAQF CAPITAL: THE EXPERIENCE OF MALAYSIA, INDONESIA, SAUDI ARABIA AND TÜRKIYE

Abstract. *The article provides a comparative analysis of contemporary legal and institutional mechanisms for building and developing waqf capital in four countries. It examines Malaysia's digital cash waqf platform and capital market framework, Indonesia's cash waqf certificate and cash waqf linked sukuk, Saudi Arabia's waqf investment funds and tax incentives, and the historical institutional link between waqf and banking in Türkiye. The study shows that developing waqf capital does not require a separate "waqf bank"; it is sufficient to connect existing financial infrastructure through sound legal arrangements.*

Keywords: *waqf, cash waqf, waqf capital, sukuk, investment fund, nazir, Islamic finance, tax incentive.*

INTRODUCTION

The classical definition of the waqf institution is that the substance of the endowed property is preserved and only the benefit deriving from it is directed towards the designated purpose. This principle often leads to the conception of the waqf as static property standing entirely outside economic circulation. In reality, however, the main task of the modern waqf system is not to withdraw property from circulation but to increase its capacity to generate income while preserving its substance and its purpose.

Over the past twenty years the very notion of waqf capital has expanded in a number of Muslim countries. It is no longer confined to the property originally endowed by the founder, but also covers cash waqf funds, the investment income derived from

them, the reserves set aside to preserve capital, and the financial resources attracted to the development of waqf assets. This expansion is being carried out in each country through its own legal and institutional mechanisms.

The aim of the present article is to analyse comparatively the mechanisms for building waqf capital in the experience of Malaysia, Indonesia, Saudi Arabia and Türkiye, and to draw conclusions from them for the conditions of Uzbekistan. The choice of these countries is not accidental: each of them offers a model on this question that differs from the others.

MAIN PART

The sources of the research consist of national legislative acts on waqf, official information issued by the competent state bodies and waqf organisations, and scholarly studies devoted to the subject. The analysis was conducted not country by country but mechanism by mechanism: the attraction of cash waqf, the connection with the capital market, investment funds and tax incentives were examined separately. The work employs comparative-legal, systemic and functional methods of analysis; since certain empirical data relate to a particular period, they were not treated as a complete expression of the present state of affairs (Kenjaboyeva, 2026).

In Malaysia waqf affairs are not unified under a single federal administration; they fall within the competence of the states, and the state Islamic religious councils are the principal trustees of waqf property in their respective territories. From 2001 onwards certain state councils began to establish their own waqf agencies, which gave rise to relatively specialised forms of administration. The most noteworthy aspect of this experience is the connection of cash waqf with the banking system: the myWakaf initiative was established jointly by six Islamic banks within the framework of the Association of Islamic Banking Institutions Malaysia, and the funds collected through the digital platform are directed to the economic empowerment, healthcare and education projects designated by the state councils. In this model the bank does not take the place of the waqf administrator in the classical sense; its function consists in providing financial infrastructure and facilitating the collection of funds. It is therefore more accurate to speak, in the Malaysian case, not of a separate waqf bank but of the institutional integration of waqf with the Islamic banking system.

The second layer of the Malaysian experience is connected with the capital market. The Waqf-Featured Fund Framework introduced by the Securities Commission in November 2020 makes it possible for Islamic unit trust and wholesale funds to channel all or a specified part of their investment income to waqf purposes (Malaysia Securities Commission, 2020). Here it is important to distinguish two mechanisms: on the one hand, the direct attraction of cash from the population as waqf, and on the other, the allocation to a waqf purpose of part of the income generated by a commercial investment fund. In matters of taxation there is no single regime: contributions made to Yayasan Waqaf Malaysia qualify for a deduction of up to ten per cent of aggregate income under subsection 44(11C) of the Income Tax Act 1967 (Yayasan Waqaf Malaysia, 2026: subsec. 44(11C)), whereas for other waqf organisations the practice of granting relief has developed differently.

In Indonesia the legal basis of cash waqf is defined much more precisely. Under article 28 of Law No. 41 of 2004 on Waqf, a founder may endow movable property in the form of money through an Islamic financial institution designated by the minister; according to article 29, such an endowment is carried out on the basis of the founder's written declaration, a cash waqf certificate is issued, and it is delivered to the founder and to the trustee (Law of the Republic of Indonesia No. 41 of 2004: arts. 28–29). This procedure was subsequently developed through the institution of the LKS-PWU, the system of Islamic financial institutions authorised to receive cash waqf. The most important financial innovation, however, is the Cash Waqf Linked Sukuk, in which cash waqf is invested in state sukuk and the income obtained is spent by the trustee on social programmes; in a temporary cash waqf the principal sum is returned to the founder at the end of the term, while in a permanent waqf the capital remains under the management of the trustee. The mechanism continues to operate in practice: the Ministry of Finance of Indonesia announced the sale of the SWR007 series of sukuk on 2 September 2026. In this model it is of particular significance that the sukuk is not issued by the waqf organisation itself, that is, that a state Islamic security is used as the instrument.

In Saudi Arabia the principal instrument is the waqf investment fund. The General Authority for Awqaf has developed this line of work in cooperation with the Capital

Market Authority; according to official information, such funds are perpetual, all their units are endowed and are not placed in circulation, and the income of the fund is directed to the beneficiaries designated in accordance with the founder's conditions (Saudi Arabia General Authority for Awqaf, 2023). The establishment of a fund is subject to a special authorisation procedure: licensed capital market institutions, founders or trustees submit an application and the necessary documents, which must set out the founder's conditions, the mechanism for distributing income and the disclosure requirements; for private funds, information on the investment strategy, the nature of the assets, the level of risk and the fees is also required. One of the financial incentives is manifested in the zakat system: from 2023 rules have been in force on exempting from the levy of zakat certain economic entities belonging entirely to one or more waqfs, but this does not permit the general conclusion that "all waqfs are exempt from zakat", and depends on the legal status of the particular entity and on its compliance with the requirements.

The experience of Türkiye differs from that of the other three countries in its historical roots. Türkiye Vakıflar Bankası was established on the basis of special Law No. 6219, adopted on 11 January 1954, the first article of which gave the General Directorate of Foundations the power to establish such a bank (Türkiye Vakıflar Bankası Türk Anonim Ortaklığı Kanunu, 1954: art. 1). The historical origin of the bank cannot, however, serve as a ground for assessing it today as a waqf bank in the classical sense: it now operates as a universal bank. For this reason it is methodologically necessary to distinguish its historical connection with the waqf institution from its present status as a bank.

When the experience of the four countries is placed side by side, several general conclusions come into view. First, in none of these countries has a separate special bank been established in order to develop waqf capital; instead, the existing financial infrastructure – banks, licensed fund managers, capital market institutions and state securities – has been connected with the waqf in legal terms. Second, where the procedure for accepting cash waqf has been formalised at the level of legislation, it is clearly distinguished from an ordinary charitable collection and a chain of accountability is formed. Third, the tax regime is universal in no country: relief is granted in connection with a particular organisation, type of asset or transaction. Fourth, in all the models the legal responsibility of the trustee or managing organisation is clearly defined, and the expansion of financial instruments does not weaken that responsibility.

CONCLUSION

The comparative analysis shows that in the modern waqf system capital is formed from three different sources: traditional immovable property, cash waqf collected from the population, and funds generated by investment income. Malaysia unites all three through a digital platform and the capital market framework, while Indonesia, by linking cash waqf with state sukuk, has created a sustainable chain for financing social programmes; Saudi Arabia has brought capital under professional financial management through waqf investment funds and targeted incentives, and Türkiye has replaced a historical institutional link with the activity of a modern universal bank. The principal conclusion to be drawn from these experiences is that the economic activation of the waqf does not require the creation of a new financial institution; it is sufficient to connect the existing system on a sound legal basis. In the conditions of Uzbekistan this conclusion acquires practical meaning: defining precisely at the normative level the procedure for accepting cash waqf, introducing a mechanism of transparent reporting on the accounting and expenditure of waqf funds, and consolidating in law the responsibility of the managing organisation remain tasks of the first order. At the same time, in making use of foreign experience it is always necessary to verify information on tax and investment regimes against a precise date and document, since this field changes rapidly.

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