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Identification of Risks Exposed to The Development of Zakat and *Wakaf* Housing in Malaysia

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Abstract. Risk management is a constant effort that must be carried out throughout the life of a project. For construction and property development projects, the administration of each risk management stage is important due to the nature of the work involved. Specifically, in deliberating the collaboration between *zakat* and *wakaf* resources in the provision of low-cost housing or its equivalent for the *asnaf* and poor, it is crucial to identify the risks involved and the best way to manage them. Otherwise, the authorities' support, for instance, housing-related assistance, for instance, building new and repairing houses, could not be wisely utilized and maintained should any catastrophes occur. In the event of a calamity, the recipients will lose their houses. Especially for the *asnaf* and needy, given that they are already poor, their standard of living will deteriorate. The identification of risks exposed to housing development has been addressed in current literature, but little research has specifically identified the vulnerabilities associated with *zakat* and *wakaf* housing development. This study is conducted in an attempt to identify risks exposed to the development of *zakat* and *wakaf* housing in Malaysia via content analysis of relevant documents and a series of interviews with related stakeholders. The study's findings indicate that there are 94 risks identified, where most of the risks are inherent risks associated with the development of the property. The finding also suggests that Shariah-compliant risks, such as the requirements of mua'malat, and principles of zakat and *wakaf*, are included among the identified risks associated with the development of zakat and *wakaf* housing. The outcome of the study is significant in providing information to relevant authorities and related organizations in identifying risks accordingly and becoming the basis for the development of a comprehensive risk management framework for zakat and *wakaf* housing development in Malaysia.

Keywords: Development; Housing; Risk Identification; *Wakaf*; Zakat

1. Introduction

The presence of risk is unavoidable, especially in construction and property development transactions. The development of zakat and *wakaf* housing, like any other type of housing development, is exposed to many risks. There are a number of risks that, if not adequately managed, can lead to loss and damages, including inadequate comprehensive planning, a lack of knowledge and skills, construction disputes, and poor communication between stakeholders.

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Thorough risk identification is one of the most important elements in ensuring good risk management. Before risks can be analyzed and an effective response identified, the first step in. risk management is to identify them. According to Mills (2001), if a risk is not detected, it cannot be controlled, transmitted, or managed in any other way. The risk item can be distinguished from others by identifying each source of risk and its components. The early risk and uncertainty identification rationale also suggest that project management should focus more on methods for limiting and allocating possible disadvantages, such as contract strategy selection. It also indicates the area that requires the most design, improvement, or clarification.

From the perspective of Islamic economics and technology, the practice of management of risk is not merely acknowledged but is highly emphasized and encouraged through the identification of risks (Fauzi & Laldin, 2019). The practice of proper identification of risks is based on the concept of Islamic legal maxim (*al-ghurmu bil ghunmi*, which means gain, profit, or advantage comes with risk-taking or loss) (Dusuki & Mokhtar, 2010).

The current economic climate, particularly considering the recent COVID-19 pandemic, has negatively impacted many people's well-being, with some losing their homes due to financial inability and others losing their jobs (Berawi, 2020). The Malaysian government has provided aid and services to low-income communities, including increased financial and physical support. In terms of housing-related assistance, the Malaysian government, through its agencies and authorities, provides a great deal of assistance, such as continuing to construct low-cost housing, building new and renovating existing houses with public funds, and employing zakat and *wakaf* resources. While the understanding and identification of hazards associated with ordinary housing development has been established, risks associated with the development of zakat and *wakaf* housing have yet to be identified and made public.

This study endeavours to identify risks exposed to zakat and *wakaf* housing development, specifically in Malaysia. The study combines content analysis of relevant literature and documents and a series of interviews with related stakeholders from various fields such as *mua'malat*, risk management, construction, and housing development. The paper is structured into a few sections. Section 1 is the introduction, followed by Section 2 through Section 4 – a review of the *zakat* and *wakaf* housing projects in Malaysia, and the concept of risk management and identification, particularly in the development of zakat and *wakaf* housing. Section 5 of the paper reports on the methodology used in conducting the study. Data analysis and results of the study are reported in Section 6, followed by a conclusion in Section 7.

2. *Zakat* and *Wakaf* Housing Projects

2.1. Zakat and Wakaf

Literally, 'Qur'an identified a few meanings of *zakat* that include 'to be 'clean', 'to be 'pure' and 'obligatory 'charity'. *Zakat* is one of the five pillars in Islam that set obligatory worship ordained by Allah to be performed by Muslims to help the specific recipients, i.e., *asnaf* – i. the poor; low-income (fuqara'), ii. the needy; people who are in difficulty (masakin), iii. zakat administrators (amilina alayha), iv. converters; new Muslims (Mu'alafati qulubhum), v. slaves or captives (Fil-riqabi), vi. the debt-ridden (Gharimin), vii. in the course of God (Fi Sabilillah), and viii) the wayfarer, stranders or travellers with limited resources (Sabil). The obligation to pay *zakat* on wealth was received by the Prophet Muhammad (pbuh) in 9 AH (Nadzri et al., 2012). Under Prophet Muhammad's (PBHUH) governance, z*akat* funds were collected and distributed by the appointed *zakat*

workers *(amil).* The workers must meet potential *zakat* payers, conduct a proper *zakat* assessment, and collect the amount due to them (Hudayati & Tohirin, 2010, al-Qaradawi, 1994). In addition, *zakat* workers are also included as one of the specific *zakat* recipients eligible to receive a portion of the *zakat* funds. The first Caliph, Abu Bakar As-Siddiq, retained most of the zakat workers designated by the Prophet (PBUH). Abu Bakar emphasized the necessity of zakat payment in his judgment. A new form of zakat collecting was developed later, under the rule of the second caliph, Umar bin Al-Khattab. Several checkpoints were built along important roadways, particularly those leading to neighbouring nations. A tax collector was assigned at each checkpoint, and zakat was collected from Muslim commerce. Non-Muslim traders, on the other hand, were compelled to pay import duties (Ahmed, 2004; Dogarawa, 2009, al-Qaradawi, 1994). This tradition persisted throughout the Islamic government's early history (Ahmed, 2004).

Other caliphs and Islamic scholars then followed the ijtihad. It is said that under Umar's wise leadership, there was so much prosperity that finding an eligible zakat recipient was often difficult. Zakat's effectiveness in eradicating poverty has been proven and demonstrated through practices. Several scholars stated that poverty was eradicated under the reigns of Umar ibn Al-Khattab (13-22H) and Umar bin Abdul Aziz (99-101H) (Ahmed, 2004; Hudayati & Tohirin, 2010; al-Qaradawi, 1994). It is thought that zakat money could not be delivered in some areas during this time because there were no needy individuals. Based on the history of *zakat* practice, it is considered that through proper administration, the zakat practice is effective in eliminating poverty (Nadzri et al., 2012).

Wakaf is an Arabic word that means "keeping and preserving a specific property for the confined benefit of a specified philanthropist with the objective of restricting any use or disposition of the property outside that specific purpose" (Kahf, 2009). The definition emphasizes *wakaf*'s inexhaustible quality; in other words, the phrase refers to non-perishable property whose advantage can be obtained without consuming the property itself. *Wakaf* is commonly associated with land and structures; however, it can also refer to books, agricultural machinery, animals, shares and stocks, and cash. *Wakaf* formation necessitates several requirements, the most essential of which are given below (Kahf, 2009):

i. The property must be either real estate or a long-lasting item. Land, buildings, herds of camels, cows, sheep, literature, jewellery, swords, other weapons, and agricultural implements are all examples of *wakaf* in Muslim civilizations.
ii. The property should be given permanently, except in the instance of family *wakaf*, which is only temporary. A *wakaf* cannot be created by a kid, an insane person, or someone who does not own the property.
iii. From both the shariah and the founder's perspectives, the goal must ultimately be an act of charity. As a result, *wakaf* for the wealthy is not permitted because it is not charity.
iv. Finally, beneficiaries must be legitimate and alive. *Wakaf* for the dead is prohibited.

2.2. Zakat and Wakaf Housing Projects

In Malaysia, as a developing country, the local house values would favour investors trying to maximize their profits on housing acquisitions (Ali et al., 2016). In comparison, *wakaf* housing projects will be less expensive than traditional house developments of similar sort on the local property market. This option is intended to ensure that target groups can afford it. The Malaysian government has determined that housing is a critical need for all strata of the people. It is also a significant component of the economic parameter.

Furthermore, Malaysia's commercial and public sectors frequently provide social housing. The governmental sector's services are centred mostly in large urban centres like Kuala Lumpur and George Town, as well as rural areas. In contrast, the private sector works in both urban and suburban areas (Mohit & Nazyddah, 2011). In addition, the Selangor Zakat Board has begun to participate in constructing social housing in the Malaysian state of Selangor. It is critical to meet the needs of the underprivileged (Muslims) by ensuring they have access to a healthy living environment (Rashid et al., 2015). Allocating zakat funds for the poor and needy, such as supporting basic requirements, will allow them and their families to get benefits like low-cost housing and free medical care (Masyita, 2018).

Following that, in order to implement zakat localisation as a potential public policy in Malaysia, an agreement must be established between the unique community of zakat receivers and the amil village, as these two groups constitute the zakat system's grassroots supporters. This is one of the most effective strategies for ensuring execution success (Wahid & Kader, 2010). The *wakaf* collection should also be used to improve infrastructure, according to the study. Living in rural places with limited infrastructure also isolates the ummah from society and prevents them from accessing the market. Furthermore, living in an inappropriate shelter puts people at risk of social marginalization. As a result, *wakaf* infrastructure has two goals: developing outlying ummah infrastructures and transferring them to market-accessible places (Ismail et al., 2015).

In terms of risk, zakat and *wakaf* house development, like any other housing development, is subject to a number of dangers, including natural catastrophes, fire, theft, and destruction (Hatmoko et al., 2021). If risks are adequately identified and analyzed, they will aid in the management and elimination of damages and losses if they arise. Nevertheless, there is an absence of identified risks specifically for zakat and *wakaf* housing (Fauzi & Laldin, 2019). Existing literature has established the inherent risks to property development in our nation. However, risks exposed within the construction and development of housing projects, particularly for low-income and poor individuals, are not specifically identified (Fauzi & Laldin, 2019).

3. Risk Management in *Zakat* and *Wakaf* Housing

Risk management can be viewed as a constructive activity and considers one of the most innovative actions performed by a project manager. The objective is to establish fair expectations and tighten control over the process. Additionally, it can pave the path for the best solutions that might not have been considered otherwise (Mills, 2001; Berawi et al., 2013). Additionally, housing developer firms need to monitor risk management and manage the cost of capital provision. By better understanding project management best practices and performance indicators, project managers may direct their limited resources toward the areas that will ensure the project's success (Bakar et al., 2011).

Risk management is not limited to noting down all the advantages and disadvantages of labelling each unsettling and results in a rush of happy emotions event as "negative risk" (Szymański, 2017). Thus, risk management should be a continuous loop rather than a linear progression, ensuring that the cycle of risk detection, analysis, control, and reporting is initiated constantly. Identification of risk variables is vital for managing risk, as risk plays a significant influence on the success of a building project. Abd Karim et al. (2012) demonstrated that risks would always exist regardless of the organization's efforts to manage risks efficiently and maintain preventative measures.

Additionally, a well-managed community housing agency with a structured risk management plan is well-positioned to attract private investors as partners in providing affordable homes. Recent government actions, such as planning schemes and policies

within the Urban Land Development Authority (ULDA), as well as new initiatives, such as tax incentives established through the National Rental Affordability Scheme (NRAS), would provide greater certainty to housing providers, significantly reducing the risk associated with such investments. The organizations advocating for affordable housing expect these ideas to be implemented through grants, direct and indirect government subsidies, and government guarantees (Susilawati, 2009).

Primarily, the allocation of zakat funds for the poor and needy such as funding the basic needs of the poor, providing the fund of basic education for poor children to attend school, and also shall be followed by providing basic training for disabled people to be self-sufficient and not necessarily exploit their disability. This will then enable the poor and their families who want to be independent and rise from their limitations to be provided incentives in the form of low-cost housing and free medical facilities.

Subsequently, the *wakaf* collection is also allocated for infrastructure development. Living in remote areas with minimal infrastructures also causes the ummah to be socially excluded and inaccessible to the market. Besides, living in an improper shelter also puts the ummah under the social exclusion. Therefore, *wakaf* infrastructure has two objectives, to build infrastructures for the peripheral ummah and to relocate them to areas accessible to the market system.' The *wakaf* foundation coordinates the four programmes in order to enhance people's well-being. Each program facilitates the other. The programs will involve a large sum of *wakaf* collection. To succeed, the normal system must recognize the urgency of the peripheral ummah so that the programs are not compromised by the policies such as a tax on the *wakaf* fund, tax on *wakaf* land, and ownership transfer fee, to name a few.

4. Identification of Risk in *Zakat* and *Wakaf* Housing

Risk identification is one of the risk management processes. Risk identification in property development entails acknowledging and documenting risk classes and types of risk events based on risk-related data. It is critical to highlight that risk identification is to be conducted prudently and thoroughly, utilizing all available information. Risk identification is a critical stage that serves as the foundation for subsequent risk analysis and mitigation approaches (Hamzah et al., 2015). In terms of Shariah compliance risks, property or construction projects must consider mua'malat factors such as property ownership, receivers' ability to benefit from the property, and Shariah compliance standards (Ali et al., 2016; Kader & Mohamed, 2014).

The need for risk identification in the development of zakat-*wakaf* housing is essential, especially when the properties are specifically occupied by poor individuals or low-income groups. This is because, in the event of catastrophes, low-income and poor individuals will suffer greater loss, damage, and grave poverty. The identification of risks shall facilitate the management of the loss and damages by anticipating the peril and the way to mitigate them.

For the purpose of this study, identification of risks in *zakat* and *wakaf* housing development are categorized into seven categories, which is consistent with the typical construction procurement stages (Rashid et al., 2017). The stages of construction procurement and illustration of the involvement of risk presence along the stages of construction procurement are provided in Figures 1 and 2. The risks identified are further classified into seven groups that are i) financial, ii) legal-contractual, iii) product, iv) design, v) political, vi) environment, and vii) Shariah Non-Compliance. Specifically, the identification of the Shariah-compliant risk includes the business dealings *(mua'malat)* aspects, such as ownership of property, recipients to enjoy the benefits of the property, and compliant requirements of the Shariah (Ali et al., 2016; Kader & Mohamed, 2014).

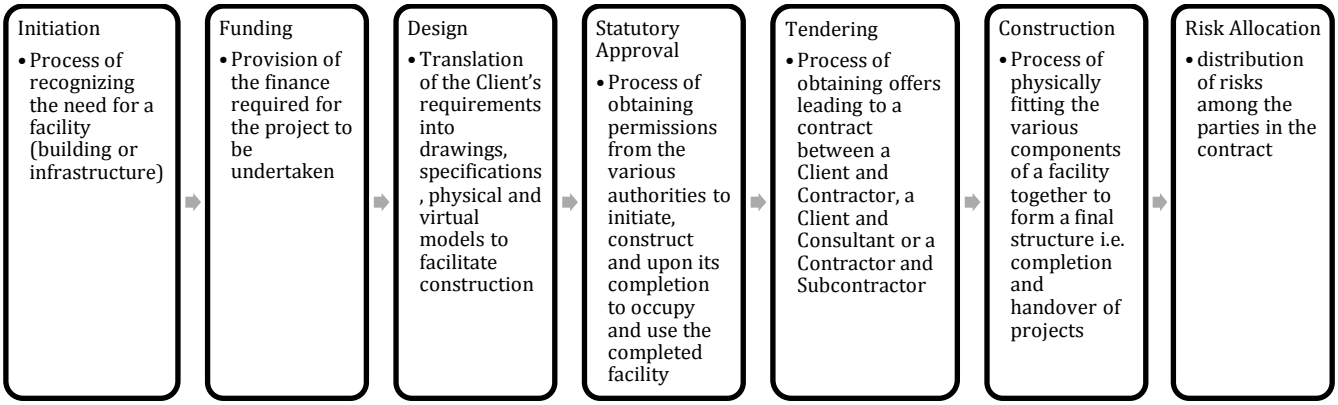


Figure 1 Process of construction procurement (Rashid et al., 2017)

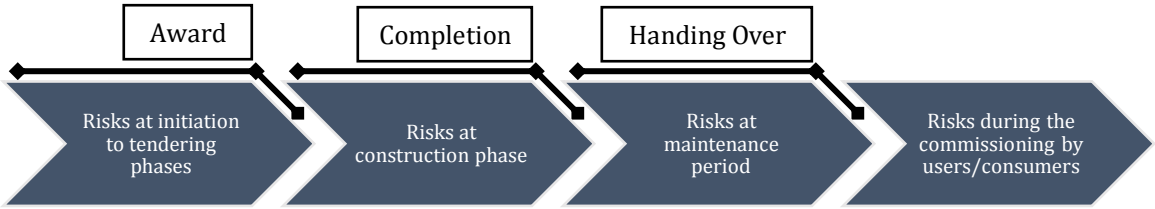


Figure 2 Involvement of risk in both main phases of property development and process of construction procurement

5. Methodology

The study combines an extensive review of literature and interviews with 30 respondents (Experts and practitioners who participated in the study comprised two experts in the area of Shariah including one academic, four experts in Islamic business dealings including two academicians, four risk managers, five experts in zakat, four experts in wakaf, four representatives from authorities, three consultants & four contractors) from various fields such as risk management, construction, developers and consultants, relevant authorities, and contractors involved in low-cost property development, zakat, and *wakaf* housing projects. Nine past published literature were analysed on identifying risks within housing projects, including for zakat and *wakaf* housing projects, as tabulated in Table 1 below.

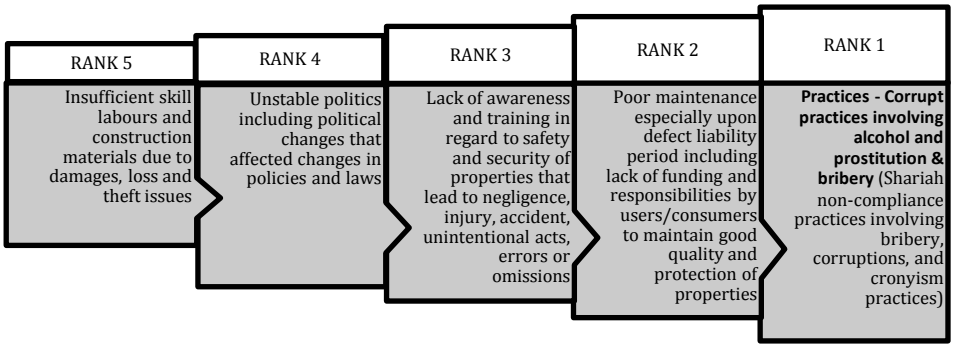
Data obtained from the literature review is analyzed through content analysis. Due to the subjective nature of information regarding the study, latent or relational content analysis is carried out to seek semantic or meaningful relationships between the characteristic identified and specific texts of documents.

Through the synthesis of data, a list of identified types of risks in the development of zakat and *wakaf* housing in Malaysia is produced (refer to table 3). The list is presented in a series of semi-structured interview sessions for validation. The semi-structured interviews are conducted via face-to-face encounters. Thus, questionnaires are self-administered and controlled by the researcher. Respondents of the semi-structured interview for this research are determined based on specific criteria, i.e., experts related to Islamic studies (fiqh, usul fiqh, Shariah); officers attached with the State Religious Islamic Authority (Mufti, government administrative officers, KPKT); professionals related to the procurement of housing and development focusing on the development of wakaf/zakat funded projects.

Table 1 Literature Review Documents used in identifying risks

No.	Title	Author(s) & Year
A	Legal Framework for Management of Waqf Land in Malaysia	Kader and Mohamed (2014)
B	Hungry for Housing: Waqf Real Estate Development - A Social Welfare Alternative	Ali et al. (2016)
C	Managing Zakat Fund in Malaysia	Zainal et al. (2016)
D	Risk Management Practices in a Construction Project – a case study	Gajewska & Ropel (2011)
E	The Identification and Management of Major Risks in the Malaysian Construction Industry	Goh & Abdul-Rahman (2013)
F	Risk Management in Megaprojects	Irimia-Diéguez et al. (2014)
G	A Review on Critical Risk Factors in the Life Cycle of Construction Projects	Renuka et al. (2014)
H	Current Practice of Risk Management in the Malaysia Construction Industry–The Process and Tools/Techniques	Kang et al. (2015)
I	Facilitate Risk Management in Construction Process by Using Hierarchical Risk Breakdown Structure	Zid and Soomro (2016)

Figure 3 5 Top-Ranked Risks in The Development of *Wakaf* and Zakat Housing in Malaysia



6. Results and Discussion

6.1. Identification of risks exposed to the development of zakat *and wakaf housing in Malaysia*

There are 94 types of risks exposed to the zakat and *wakaf* housing development identified, which also appear in general properties development. Table 2 below shows the summary and compilation of 94 types of risks identified for zakat and *wakaf* housing development in Malaysia.

6.2. Identification of Shariah Principles Within Construction Projects

The findings obtained were labelled according to 94 types and divided into seven groups in managing risks during construction works or project developments. The table below shows that most of the risks managed by project teams are oriented toward the products themselves but in the minimum amount of *shariah* principles. As far as *Shariah* compliance risks are engaged, the risks in the development of zakat and *wakaf* housing incorporate the *'mua'malat* traits, such as the beneficiaries benefit from the property and compliant requirements of the *Shariah* (Ali et al., 2016; Kader & Mohamed, 2014). Risk triggered by activities or transactions that fail to follow *Shariah* standards and requirements, such as ownership of *usufruct* explicitly for *wakaf* assets, *zakat* recipients to enjoy property benefits, *'mua'malat* principles and requirements, i.e., prohibition of 'riba', *gharar* (uncertainties), requirements of *tawaqquf* (*zakat* surplus for investment) are incorporated to be identified in the development of zakat and *wakaf* housing.

Table 2 Summary and Compilation of Identification of Risk for Zakat and *Wakaf* Housing Development in Malaysia

	1	2	3	4	5	6	7
	Procurement phases (1=Initial; 2=Funding; 3=Design; 4=Statutory Approval; 5=Tendering; 6=Construction; 7=Completion)						
Financial	1)Rules 2)Land conversion 3)Leverage 4)Labour 5)Economic viability 6)Consumption 7)Price fluctuation 8)Bankruptcy	41)Insufficient funds 42)Approach 43)Insufficient zakat fund 44)Utilization of *zakat* surplus 45)Lack of interest 46)Protection	47)Variation		57)Inaccurate cost plan & estimates	61)Poor cash flow 62)Poor project payment 63)Dispute	84)Poor cash flow 85)Poor project payment 86)Dispute 87)Payment problems 88)Unknown site conditions 89)Upkeep (During DLP) 90)Upkeep (After DLP) 91)Quality 92)Safety 93)Protection
Legal-contractual	9)Statutory clearance 10)Procurement strategy 11)Land status 12)Process 13)Regulations		48)Necessity		58)Ambiguous provision		
Design	14)Land size 15)Location 16)Fragmented land 17)Changing delivery method		49)Error 50)Location 51)Site area 52)Suitability 53)Variation 54)Dispute 55)Expertise	56)Poor design submission	59)Changes	64)Poor feasibility study 65) Operation constraints	
Political	18)Policy 19)Bureaucracy 20)Gov. intervention 21)Corruption 22)Instability						

Environmental	23)Existing structure 24)Ground condition 25)Acts of God 26)Distance 27)Settlements 28)Cultural						94)Physical Condition
Product					60) Insufficient time to prepare bid	66) Availability of competency 67) Shortage of expertise 68)New technology 69)Tight project schedule 70)Equipment failure 71)Project schedule 72)Unknown site conditions 73)Variation 74)Coordination 75)Resources 76)Materials & Labour 77)Quality 78)Safety 79)Security 80)Competency 81)Team working 82)Management 83)Relationship between parties	
Muamalat	29)Recipient 30)Ownership 31)Elements & concept 32)Practices 33)Requirement 34)Provision 35)Terms & conditions 36)Standardization 37)Objective 38)Intention 39)Prohibitory element 40)Conflict						

6.3. Validation of the Risks Identified

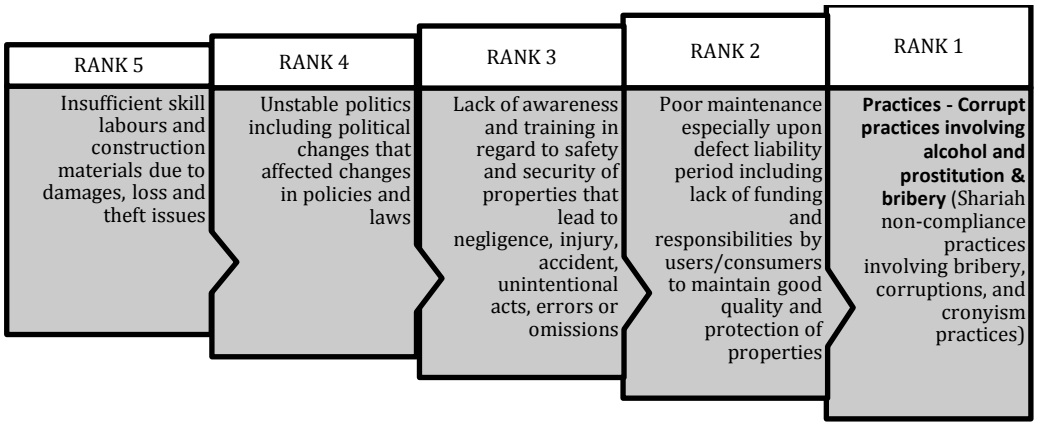
The output derived from Table 3 is next presented in a series of semi-structured interviews. The data of semi-structured interviews are analysed based on the identification of the presence of risk through the agreement stated by experts and the percentage of presence of risks provided. The data analyses are presented in frequency distribution and percentage tables. Based on the analyses of data from semi-structured interviews, respondents agreed (with an average of >55% agreement) on the presence of identified risks. The hierarchy of the identified risks is determined through the percentage of presence of risks provided by the experts. The hierarchy of risks for this research is analysed through the "'rank' formula in Microsoft Excel. Table 3 shows the hierarchy of presence of risk (risks presented at more than 60% of involvement and agreement achieved – respondent agreement) for each identified risk.

Table 3 Hierarchy of Identified Risks for Zakat and *Wakaf* Housing Development in Malaysia

	Risks (based on the 94 identified risks)	Hierarchy of risks	
		Average	Rank
4	Labor & material cost is higher than predicted	62.14	9
14	Size of *wakaf* land - Size of some of *wakaf* land is small, thus restraining the development	60.54	11
15	Location of the project - Scattered and lacks potential to be developed	56.25	19
22	Political changes - Unstable politics, union issues, local bodies	68.04	4
26	Distance - Strategic location - Site distance from urban area	60.89	10
27	Settlements - Difficulty and trouble to access the site	55.54	20
32	Practices - Corrupt practices involving alcohol and prostitution & bribery	73.39	1
40	Disputes and conflicts of responsibility	57.96	16
42	Lack of systematic approach and implementation to collect rent arrears from the tenants	56.85	17
45	Lack of interest of shareholders to finance projects - *Wakaf* projects are not bankable	59.82	12
53	Variation - Poor design, especially to cater to Shariah design requirement; Delay of the projects	65.18	6
54	Dispute - Consultants (Architect, engineer), MAINs, developers, and parties dispute in design	58.57	14
56	Poor design submission - Lead to repayments and penalties for getting statutory approvals	55.36	21
59	Changes in design - Delay tendering	59.46	13
60	Insufficient time to prepare bid - Poor consultation; Defective contract documents	62.86	8
61	Poor cash flow - Delay and abundant work by contractors	58.04	15
73	Variation occurs- Construction delay	56.79	18
74	Coordination problems - Gaps between the implementation and specification	54.64	22
75	Lack of availability of resources - Shortage of storage; Faulty materials	59.82	12
76	Availability of labour, materials & equipment - Insufficiency of construction materials	65.54	5
77	Poor construction quality - Lower work quality, rush bidding	63.39	7
84	Poor cash flow - Delay and abundant work by contractors	58.04	15
90	Maintenance (After defect liability period) - Poor maintenance due to lack of funding	71.25	2
91	Poor construction quality - Lower work quality	63.39	7
92	Safety & security - Lack of training - Negligence, injury, accident, unintentional acts,	69.46	3

Based on the analysis conducted on the involvement of risks in the development of *wakaf* and zakat housing in Malaysia, five top-ranked risks are identified as per provided in figure 3.

Figure 3 5 Top-Ranked Risks in The Development of *Wakaf* and Zakat Housing in Malaysia



7. Conclusions

The research concluded that there is a dearth of literature on the risks associated with the development of zakat and *wakaf* housing in Malaysia. Ninety-four risks were identified as being associated with the development of zakat and *wakaf* housing in Malaysia, and Shariah principles, particularly the business transactions and dealings *(mua'malat)* and their requirements are included as one of the risks identified. Additionally, most of the risks identified are inherent risks involved in typical housing developments in Malaysia. The research findings are significant because they enable authorities and related organizations to appropriately identify risks and serve as a basis for developing a comprehensive risk management framework for zakat and *wakaf* housing development in Malaysia.

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