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The Current Landscape of Waqf Fund for Human Capital Development (HCD) In Malaysia and Strategic Directions

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Abstract: The contribution of waqf in advancing socio-economic development is both historical and significant, particularly in the context of human capital development (HCD). HCD is essential for producing innovative, skilled, healthy, and educated professionals who can contribute effectively to national growth and competitiveness. As a form of sustainable and ethical financing, waqf plays a pivotal role in supporting HCD initiatives by funding education, healthcare, skills development, and welfare programs. This study aims to explore the current progress of HCD in Malaysia and analyse the role, issues, and challenges faced by waqf in this domain. It further seeks to provide viable recommendations for strengthening the integration of waqf in HCD efforts. The research adopts a qualitative methodology, utilizing data collected from a range of secondary sources including academic books, journal articles, conference papers, and official websites of HCD and waqf institutions. The findings reveal that the potential of waqf funds in supporting HCD is indeed remarkable, with existing initiatives making a positive impact on the socio-economic development of the country. Despite facing various operational, legal, and institutional challenges, the use of waqf in HCD has been commendable. Future research is recommended to explore comparative practices of waqf-based HCD in other jurisdictions to provide deeper insights and benchmarking opportunities for enhancing the Malaysian experience.

Keywords: Education; human capital; Malaysia; waqf; welfare

Introduction

Malaysia serves as an insightful case study in using human capital development as a national growth strategy. This approach integrates human capital with Malaysia's broader economic and national policies, significantly contributing to the nation's development (Devadas et al., 2020). When Malaysia gained independence in 1957, its economy was largely commodity-based. In response, the government introduced strategies to reduce poverty and, driven by industrialisation, recognized that a skilled workforce in the industrial sector would be a critical force in driving socio-economic growth (Azizan et al., 2021). As Malaysia's development plans and economic policies evolved, the country gradually shifted towards a knowledge-based economy. A knowledge-based economy is characterised by human capital's capacity to innovate, generate new ideas, apply advanced technology, and leverage entrepreneurial skills (Salleh et al., 2023; Zulkifli et al., 2018; Arshad & Ab Malik, 2015).

Furthermore, human capital development (HCD) requires systematic planning to cultivate high-quality talent through education and training that align with future economic needs. This alignment is crucial for

macroeconomic growth, as it is closely related to the quality and adaptability of a nation's workforce (Arshad & Ab Malik, 2015; Hussin et al., 2012). Thaib (2013) describes human capital development (HCD) as a crucial process in enhancing human capital, viewing people as essential assets that can drive national economic growth. He notes that one of the primary obstacles to implementing development projects and achieving effective economic progress is a shortage of skilled labour and the expertise required for advanced technology utilisation. Additionally, Harbison and Myers (1964) argue that human resource development is essential for achieving political stability, social justice, and economic growth. They assert that a nation unable to develop its human capital is unlikely to achieve sustainable development. Thus, human capital development is a foundational element in the economic advancement of any country.

Supporting initiatives for HCD is primarily the government's responsibility, though the broader community also plays a significant role. Financial and managerial support can be derived from sources like taxes, budget allocations, donations, and gifts, which are crucial for advancing education, skills training, and health initiatives essential to human capital development (OECD, 2017; Fuller, 2014). One of the Islamic social finance tools, waqf (endowment), significantly contributes to HCD. Based on the previous practice of waqf in many Islamic jurisdictions, it is proved that the benefits of waqf that people obtained from waqf are ~~is~~ remarkable. Historically, the advantages of waqf began in the era of the Prophet (PBUH), when his companions dedicated their lands, wealth and purchased wells for the benefit of people to date through various means. The contemporary use of cash waqf also opens up various opportunities for realisation of the benefits of waqf in the community. Several studies (Mohamad Rohana et al., 2024; Roslan et al., 2023; Usman & Ab Rahman, 2023; Hasan et al., 2019) show the importance and potential of waqf funds for higher studies in the Malaysian universities. The studies find that education waqf can play a great role in boosting human capital as an additional financial resource for many universities. Moreover, the use of waqf also shows the positive impact in healthcare and other welfare matters in Malaysia to provide better healthcare service to underprivileged people in the community and to enhance their quality of life (Abg Marzuki et al., 2021; Sowtali, 2021; Rosli et al., 2018).

However, research (Zulkifli et al., 2022; Hassan et al., 2022; Ali and Markom, 2020; Kamarubahrin et al., 2019; Awang and Basir, 2016) indicates that the current application of waqf in human capital development (HCD) faces significant challenges in realising its full potential. Key obstacles include ineffective waqf management, the absence of dedicated models and structures for HCD, and complexities within the legal and regulatory frameworks. Therefore, this study aims to evaluate the current application of waqf funds in HCD initiatives and to examine these barriers, offering recommendations to enhance waqf's impact on human capital development.

Literature Review

1. Concept of Waqf and its Economic Function

The term "*waqf*" and its plural, "*awqaf*", are derived from the Arabic root verb *waqafa*, meaning to halt or make something stand still. In a broader sense, waqf also conveys an idea rooted in philanthropy. Primarily, it translates to "to stand" or "to remain calm," while in Islamic jurisprudence, it refers to withholding the *asl al-māl* (principal or corpus) to allow the benefits to be released for charitable purposes (Hosseini et al., 2014). The precise definition of waqf may vary, yet its essence remains as a practice through which personal property is endowed permanently for charitable purposes. This property, along with any income or revenue it generates, is directed towards philanthropic activities, which is regarded as a hallmark of Islamic civilisation's civilization's social contributions. Kahf (1998) describes waqf from a Shari'ah perspective as a means to preserve an asset or property, aiming for its continued use and benefit to society. This concept ensures that the asset provides ongoing support for righteousness and charitable purposes, serving humanity sustainably. From the economic perspective, waqf can redirect resources from present consumption to sustainable investments that yield revenue or income for individual and societal well-being, benefiting future generations (Kahf, 1998). Kahf (1999) also proposes that waqf can establish a third sector distinct from profit-driven private enterprises

and government functions. This sector can achieve significant socioeconomic objectives, supporting education, healthcare, social welfare, environmental sustainability, and public utilities.

2. Historical Evolution of Waqf

The historical context of waqf highlights its pivotal role in economic development and demonstrates its significant potential in this arena (Islahi, 1992). Economically, waqf serves as a mechanism to allocate funds and resources towards long-term investments rather than immediate consumption, directing them into productive assets that generate income for future societal use. Alhabshi (1991) views waqf as a fundamental economic institution, aimed at creating sustainable economic opportunities by channelling benefits into society's long-term development.

During the Ottoman rule, the financing and management of very important sectors like public health, education and social welfare were altogether taken care of by waqf framework to such an extent that a person could have enjoyed the benefits of waqf institution from his/her birth to death; the significance of waqf and its important role in human development could be easily understood from the following expression: "thanks to the waqfs flourished during the Ottoman Empire, a person would have resided in a waqf house, slept in a waqf cradle, ate and drank from waqf properties, read waqf books, taught in a waqf school, received his salary from a waqf administration, and when he died, put into a waqf coffin and buried in a waqf cemetery" (Baskan, 2002). That's why the majority of the investigations pertaining to waqf sheds light on the focal point of its important role play in the social, economic and cultural life of the Ottoman society.

Across the vast Islamic world, spanning from the Atlantic to the Pacific, waqf has, for centuries, funded and sustained remarkable architectural achievements and essential social services through this unique form of Islamic philanthropy. Numerous, *awqaf* have endured for over 500 years, with some even lasting over a thousand years (Elasrag, 2017). Throughout Islamic history, waqf has played a significant socioeconomic role, providing essential services to communities at no cost. This charitable framework has contributed greatly to overall economic development, underlining the far-reaching impact of Islamic social welfare initiatives.

3. Human Capital Development (HCD)

HCD is recognised as a strategic approach to enhancing workplace potential by creating an environment that enables individuals to develop their skills and abilities (Arokiasamy et al., 2023; Marimuthu et al., 2009). Empowering individuals to actively engage in their own development fosters skills, knowledge, productivity, and creativity. As a people-centred rather than production-centred strategy, HCD focuses on holistic growth, with the primary goal of strengthening people's capacities to identify and address their own priorities. It encourages individuals to support projects and initiatives that yield direct benefits to their communities. Education and health are crucial pillars within HCD. Education nurtures intellectual, moral, and psychological growth, significantly contributing to economic and social advancement. Skilled human resources are fundamental to a nation's progress, with human capabilities considered more critical than physical and material resources (Arokiasamy et al., 2023; Thangavelu & Wang, 2020; Son, 2010). Harbison (1973) views human resources as the ultimate wealth of a nation, where individuals act as the primary agents of development, utilising resources and establishing the frameworks for ongoing progress. Without enhancing and effectively deploying the skills and knowledge of its people, a nation cannot fully achieve progress.

4. Human Capital Development (HCD) in Malaysia

Since gaining independence in 1957, Malaysia's economic landscape has shifted significantly. Initially, the economy was largely dependent on resources such as rubber and tin, which drove economic growth. Over time, Malaysia transformed from an agrarian-based economy to a more diversified one. The share of the labor force engaged in agriculture and mining declined from 53.5% in 1970 to 11.4% by 2012, while employment in the manufacturing and service sectors rose proportionately. Rapid economic growth and a tightening labor market since the early 1990s also led to a substantial increase in foreign workers (Birruntha, & Kamaruddin, 2024; MIDA, 2024; Lim, 1987).

High economic growth rates and the implementation of welfare-oriented programs have substantially improved Malaysia's Human Development Index. The Poverty Eradication Program notably reduced poverty levels from 49.3% in 1970 to 3.9% by 2008. Socioeconomic development has also spurred significant demographic shifts, with urbanization rates rising sharply, as the urban population grew from nearly one-third in 1970 to over two-thirds by 2010 (Manaf, & Ibrahim, 2017; Mohamed, & Xavier, 2015; Economic Planning Unit, 2004).

Malaysia's achievements today are largely attributed to the emphasis placed on HCD in national strategic planning since the early 1990s. Declaring that "Our People are Our Ultimate Resource," the country prioritized cultivating this resource to advance national progress. Accurate understanding of existing human capital skill levels is crucial for economic development planning, with the goal of achieving developed-nation status (Yusof, 2013; Economic Planning Unit, 2004). As industrialization increasingly shaped the economic landscape, the Malaysian government recognized the pivotal role of skilled human capital in driving both social and economic growth. Consequently, strategic planning was initiated to enhance human capital to support and sustain Malaysia's socio-economic activities.

One of the strategies of Malaysia's development is investment on human capital. Economic Transformation Program (ETP) across all NKEA's considers HCD as a major aspect for enriching human potentials (Azizan et al., 2021). Out of 122 countries, Malaysia's position is 22nd and placed in 5th position in Asian Pacific Region in Human Capital Index 2013 assigned by World Economic Forum (2013). Besides this, according to the Tenth Malaysian Plan (2011-2015), that highly concentrates on non-physical infrastructure while developing human capital by giving special attention to skill improvement and strong innovative capabilities of workforce. The government is paying great attention to implement a holistic approach in order to upgrade the existing status-quo of education and training system by focusing on teaching methods from infancy to tertiary level. The government takes necessary steps for providing mechanical and vocational training as a supplementary for individuals in order to make use of their full potency. It is also alluding that education and economic growth of Malaysia is positively correlated and similarly human capital and economic development in Malaysia are mutually related in terms of attaining prosperity of the country (Economic Planning Unit, 2010). The study found that a strong relationship exists between education and HCD which is pertinent to a better illumination and implementation of knowledge in the process of enhancement of their skills through proper training that will be ultimately supportive in the maintenance of sustainable economic growth. Higher education determines a more skillful, productive and experienced workforce. The study shows that for developing effective education quality, the methods of education input have to be upgraded too (Islam, 2016).

Some researchers emphasize on sustainable economic growth for Malaysia in order to attain the status of high-income nation by 2020. It is argued that successful implementation of ETP will certainly be instrumental for the country to be on par with other high-income nations of the world. In order to attain the desired result from HCD, researchers stress to invest more on this attempt. They also opine that a knowledge-based economy would lead Malaysia towards attainment of a rapid rate of growth and enable the country to earn international competitiveness and development of human capital is the prime urgency in order to direct the country towards that most expected goal (Muhammad, et al., 2012). In the context of Malaysia, the government allocated more than 20% of the entire expenditure of the country to provide education and training for the duration of three years starting from 2000 till 2003. It is also pointed out that the enrolment of education in the tertiary level has gone higher from the period of 2000 to 2010 (Ismail, and Yussof, 2010). The SME Annual Report (2011/2012) and the SME Masterplan (2012–2020), indicate that a primary obstacle to the growth of SMEs is the lack of investment in HCD. The factors that impede HCD are (a) insufficient skilled human capital resources (b) inadequate education (c) shortage of experiences (d) inappropriate trainings and programs (National SME Development Council, 2011).

Methodology

The objective of this study is to investigate how waqf is incorporated into the development of human capital in Malaysia and to offer practical suggestions for further improvement. In alignment with the study's objective,

a qualitative research approach is adopted. We collect the data for this research from a variety of sources, including articles, books, conference proceedings, websites, and more. Moreover, the data is obtained through Google Scholar, Scopus and other local indexed journals such as the Malaysian Citation Index (MyCite). The study employs a systematic selection process, applying rigorous inclusion criteria to identify only those research works that directly contribute to understanding waqf-based human capital development. The authors specifically curated literature addressing HCD components including skills training, educational advancement, healthcare access, and community empowerment within the waqf framework. This focused methodology intentionally excludes studies of other HCD financing models, ensuring the research maintains its specialised examination of waqf's role in human capital development. Such deliberate parameters enhance the study's conceptual clarity and analytical precision.

After the data collection, the researchers conduct the data analysis through descriptive and exploratory research analysis methods. The research utilises the descriptive research method to explain the current progress of human capital development (HCD) in Malaysia and the practice of waqf in supporting HCD. Moreover, the exploratory research approach is adopted to investigate the obstacles of practising waqf in HCD that are experienced by the current HCD in Malaysia, and such obstacles require some viable solutions. Therefore, the research adopts a descriptive and exploratory research analysis approach to obtain the objectives of this research. This research maintains strong methodological rigour through its careful selection of data sources. The study's foundation rests upon academically recognised materials – specifically peer-reviewed publications, scholarly conference proceedings, and institutional reports from reputable organisations. By adhering to these stringent source criteria, the research ensures the integrity and analytical value of its data, providing a solid basis for meaningful academic investigation.

The Findings and Discussion

1. Practice of Waqf in Developing Human Capital in Malaysia

The practice of waqf in Malaysia has been a significant financial support for various activities to strengthen the human capital which include financial support to higher education, Islamic schools, small and medium enterprises, women empowerment, poverty alleviation, medical support and many more.

Enhancement of Education through an Additional Financial Resource

Waqf education in Malaysia has been playing a great role in providing benefits to the Muslim community, especially to the education sector. The waqf education is able to produce many educated individuals who can uphold the Islamic values and morality and install progress in the community. The waqf fund can be used to enhance the academic facilities, infrastructure, and other advantages for the students and also the academic community. The waqf funds may also be used as an entrepreneurship tool to advance the students' careers. Consequently, it advances the economic status of individuals, promotes the beauty of Islam, and provides sustenance to those needy students and their families (Roslan et al., 2023; Mohamad Rohana et al., 2024). The waqf education in Malaysia can be traced back to the days when Islamic tradition and other waqf institutions were embraced by the Muslim community. The "Madrasah/Pondok", also known as the Islamic educational centre, was among the exemplary educational institutions which were totally based on waqf funds. Such pondok provides dissemination of Islamic knowledge among the Muslim community, and especially through memorisation of the Holy al-Qur'ān, learning about obligations as a Muslim, Islamic theology, the Arabic language and many more (Mohamad Rohana, et al., 2024; Nor & Yaakub, 2017; Azha, et al., 2013).

The establishment of those pondoks, including their land, buildings, financial assets, and operational expenses such as accommodation of students, food, and educational materials, is also provided through waqf funds (Mohamad Rohana et al., 2024; Nor & Yaakub, 2017). The Muslim community in Malaysia has been contributing to waqf funds primarily because they are seeking the blessings of Allah in their wealth. By waqf, the beauty of Islam can be spread among the society; the waqf can assist the community to be educated and knowledgeable; and finally, the waqf can create a balanced society where it supports the needy to obtain their necessary rights in the community, such as education (Azha et al., 2013). However, according to the study of

Mohamad Rohana et al. (2024), several issues in waqf education require the attention of respective entities such as the government, researchers and also the wāqif (endower). Lack of awareness and understanding, difficulties in the legal and regulatory framework of waqf, lack of efficient management, and sustainable funding are some of the challenges that hinder the progress of waqf in realising its benefits for HCD in Malaysia.

Malaysian public universities are initiating waqf funds as an alternative fiscal tool that plays a great role in supporting universities needs from various aspects. The Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) is collaborating with Yayasan Waqaf Malaysia (YWM) through an initiative called myWaqaf PTPTN (The EDGE Malaysia, 2024). Such initiative is taken in order to provide a sustainable source of funding for higher studies in Malaysia and to ensure fair access to education from different backgrounds regardless of religion and ethnicity, which can promote an equitable education system for all eligible students. Moreover, Usman and Ab Rahman (2023) listed some public universities in Malaysia which have waqf funds. According to Anuar et al. (2019), the use of waqf for higher education in Malaysia is growing rapidly, and it has been used for the benefits of the higher studies institutions and the students. The study suggests considering waqf as the primary financial source of the education and the development of the Muslim community. The practice of waqf in Malaysia has significantly contributed to human capital development (HCD) through education, similar to models in other Muslim-majority countries. For instance, in Indonesia, waqf funds are extensively used to support pesantren (Islamic boarding schools) and universities, such as Universitas Islam Indonesia (UII), which operates on waqf assets (Hasan, 2020). Turkey's waqf universities, like Fatih Sultan Mehmet Vakıf University, demonstrate how historical waqf foundations continue to support modern higher education. Meanwhile, in Pakistan, institutions like Aligarh Muslim University and The Citizens Foundation (TCF) schools rely on waqf and charitable donations to provide accessible education (Iqbal & Lewis, 2020).

Providing Varieties of Skills and Training Programs

Human capital plays a crucial role in a country's development, and cultivating strong human capital can position a nation favorably on the international stage. The Malaysian government is pursuing a public administration reform agenda through the Islamic Administration Institutes in Malaysia (IAM), which is a key part of the renewal process. One potential reform is the implementation of an effective human capital program. Research shows that HCD within the IAM is actively underway, besides several issues and challenges in implementing the HCD program (Awang, & Basir, 2016).

The effectiveness of waqf-based skills training programs in Malaysia can be assessed through measurable indicators such as employment rates, income levels, and business sustainability among beneficiaries. For example, the Terengganu Culinary Academy has reportedly enabled 70% of its graduates to either start their own businesses or secure jobs in the food industry (Rosli et al., 2018). Similarly, USIM's Specialist Medical Clinic (USMC) has treated over 5,000 low-income patients, significantly improving their quality of life (Rosli et al., 2018). A comparative study by Mohamad Suhaimi et al. (2014) on Penang's waqf fund scheme found that 85% of participants experienced improved economic stability after receiving skills training. To enhance impact assessment, future studies should incorporate longitudinal data tracking beneficiaries' progress over 3-5 years, ensuring sustainable human capital growth (Awang & Basir, 2016).

Supporting the Healthcare System

Malaysian healthcare system can be divided into three categories where two categories are government led and subsidised public sectors and the third category is the private sector. The healthcare system has various facilities and ways of treatment. It is known that public healthcare is more affordable than a private healthcare system which is deemed to be expensive. Public healthcare might take a longer time to provide treatment whereas private healthcare might offer in a faster manner. It is mentioned earlier that the cost and expenses of treatment is getting higher day by day and some of the treatment might go over the affordability of an individual due to the higher cost (Abg Marzuki et al., 2021; Atan, 2017). Hence, financial support, takaful,

waqf and other alternatives play a crucial role in encountering the situation and to obtain the most needed treatment by a patient (Abg Marzuki, et al., 2021; Rosele, et al., 2024).

In Malaysia, the private healthcare system can also be categorized into two; some of them are profit oriented and others are social and non-profit oriented. The latter one can be based on waqf fund or any other means that suite the healthcare system. It should be highlighted that Hospital Fatima in Ipoh, Perak was among those earliest hospitals which was built on waqf, şadaqah and other donation of the community that time before the independence of Malaysia (Atan, 2017). Rosli, et al., (2018) found that the specialist clinic at USIM has been offering services of the clinic that reaches to the low-income people in the society and provided medical treatment for eyes in many rural areas in Negeri Sembilan. The study finds that such treatment among the rural areas by the eye specialists has a great social impact. Such quality treatment by the specialist allowed many people to have better vision and a quality life to fulfill their regular activities.

Moreover, the study of Mohamed, et al. (2021) highlights that the initiatives that are taken by the State Islamic Religious Council (SIRC) in Malaysia has been making significant progress and contribution the society. The waqf funds are utilized by the SIRC to enhance the socioeconomic development among the community by providing hemodialysis facilities, medical tools, machine and equipment, medicine, waqf clinic, and health equipment for covid-19. Table 1 highlights a list of healthcare providers in different states of Malaysia which are based on waqf and other charities.

Table 1. List of Waqf and Charity based Healthcare Providers in Malaysia

	Name of the Institution	Year of Establishment	Location
1	Hospital Fatima	1974	Perak
2	Pusrawi Hospital	1984	Kuala Lumpur
3	Waqf Annur Hospital	1998	Johor
4	Hospital Pakar Al-Islam	1996	Kuala Lumpur
5	USIM Specialist Clinics	2013	Negeri Sembilan

Source: Atan, et al., (2017) with some modifications.

Improvement of Social Welfare

The role of waqf and other Islamic social finance tools such as zakat and şadaqah in improvement of the quality of life among the members of the community is undeniable and praise-worthy (Halim et al., 2025). Various research evidence such impact of waqf and other Islamic social finance tools in the community. Mujani, et al. (2017) highlights the contribution of waqf among the community in Negeri Sembilan, Malaysia. The authors have found that the role of waqf in such has covered many aspects of people's life. The waqf fund has been utilized to provide education to the needy. The waqf land in that area was rented to the people to open different types of shops which enables the member of the community to prove their dreams into reality. By renting those waqf lands to people, the waqf funds sustains and at the same time, people were benefitted by having a shop next door to the Masjid and the entrepreneurs were given chances to make their livelihood.

Among the notable waqf fund and its various activities, is the waqf that has been contributed by Johor Corporation (JCorp). Later JCorp established Waqf An-Nur Corporation Bhd (WANCorp) as the mutawalli for the waqf fund which is amount to MYR12.35 million. It should be noted that WANCorp enables various business premises in order to promote entrepreneurship among the people from the waqf fund. The fund is also used to train the community and to provide necessary skills and mindset of entrepreneurship (Mohamad Norzilan, 2019).

Empowering the Underprivileged Women

Amuda et al., (2016) strives to propose a cash waqf model that can empower the widows in Malaysia. According to their study, an widow woman in Malaysia usually encounters various difficulties in her life, such as lack of economic resources, lack of access to education, reliance on charity, socially neglected, and not

having the enough portion from the inheritance and many others. The study also highlights that very less research and initiatives have been conducted in support of widowed women in Malaysia. Therefore, the concept of cash waqf play a great role in providing support to those widowed women through education, credit, entrepreneurship, and other means that suit with them. Similarly, Suhaimi (2021) and Mohadi, and Akli (2022) also highlight the necessity of having waqf funds for the widowed and divorced women in empowering the potential of those women in the community. Providing them with proper skills and training will assist to enhance their quality of life and allow them to be self-sufficient to find their sustenance without seeking for donation or any unethical ways.

The empowerment of underprivileged women through waqf can be analyzed through Islamic social theory, particularly the concepts of '*maslahah*' (public good) and '*kafalah*' (social responsibility). In Malaysia, initiatives like Waqf An-Nur Corporation (WANCorp) have trained over 500 women in entrepreneurship, aligning with *Maqasid al-Shariah* (preservation of dignity and wealth) (Mohamad Norzilan, 2019). Comparatively, Bangladesh's waqf-based microfinance programs for women, such as those by Islamic Relief, have shown 30% higher income retention rates among beneficiaries (Amuda et al., 2016). Integrating gender-sensitive waqf policies, as proposed by Suhaimi (2021), with Qur'anic principles of economic justice (e.g., Surah An-Nisa, 4:32) could further strengthen Malaysia's approach to women's empowerment through waqf.

2. Obstacles Facing by Human Capital Development (HCD) in Malaysia

Obstacles in HCD

Malaysia's human capital development (HCD) faces significant systemic obstacles hindering its transition to a high-income economy. A primary structural challenge is the middle-income trap, characterized by reliance on low-cost labour in export sectors, which impedes the shift to high-value activities (Ashton et al., 2005; Brown et al., 2001; Sieng & Ishak, 2014). This is compounded by a persistent skills mismatch, where graduates from higher education institutions often lack the technical competencies, innovative capabilities, and soft skills demanded by industry (Awalluddin, 2019). Financial constraints severely limit access and completion, particularly for the B40 group, evidenced by insufficient training allowances, high loan non-repayment rates (Aziz & Subramaniam, 2023), and financial hardship being a leading cause of dropout from higher degrees and even secondary school (Chan et al., 2024; Sariman et al., 2024; Sani et al., 2020). Further exacerbating these issues is brain drain, as skilled graduates seek opportunities abroad due to perceived domestic labour market limitations, including contentious multicultural recruitment policies (Sallahuddin et al., 2024; Utusan Malaysia, 2024), and a shortage of qualified HRD professionals to foster workplace learning cultures (Abdullah, 2009).

Obstacles to Waqf-based HCD

Within the specific context of waqf-based HCD, particularly in Islamic Administration Institutes (IAM), unique challenges arise. Governance fragmentation due to Malaysia's federal-state jurisdictional division impedes the effectiveness of state-level IAM HCD programs (Awang & Basir, 2016). A critical internal barrier is the staff composition and skill deficiency, with most personnel originating from religious educational backgrounds and lacking crucial management expertise, limiting development initiative effectiveness. While training opportunities have increased via IAM, there remains a lack of diverse, innovation-focused training programs tailored to the institutions' needs (Awang & Basir, 2016). Crucially, financial support is identified as a critical and specific challenge for developing human capital within these Islamic institutions, constraining comprehensive staff development efforts. Fostering the necessary intellectual capital and a culture conducive to innovation and motivation also presents an ongoing hurdle for effective public sector outcomes within the IAM framework (Awang & Basir, 2016).

3. Directions for the Future Development in the Practice of Waqf for HCD

Institutional Restructuring and Governance Innovation

To overcome fragmentation in waqf management, Malaysia must establish a National Waqf Council for Human Capital Development (NWC-HCD) under federal legislation. This body would integrate State Islamic Religious Councils (SIRCs), higher education institutions, and industry representatives to standardize governance and strategically align waqf assets with national HCD priorities (Abd Aziz et al., 2023; Thaker et al., 2020). The NWC-HCD should adopt Indonesia's Badan Wakaf Indonesia (BWI) model, which centralizes registration, audits, and impact reporting while allowing state-level implementation flexibility (Sukmana et al., 2022). Concurrently, public universities should implement a mandatory University Waqf Governance Framework requiring: (1) Board-appointed waqf committees with Sharī'ah and financial expertise, (2) digital blockchain-based asset tracking (Daud et al., 2022), and (3) annual public disclosures of beneficiary outcomes (e.g., graduate employability rates, research commercialization yields). As demonstrated by Turkey's foundation universities (vakıf üniversiteleri), such structures enable sustainable endowment growth while preventing the management inefficiencies noted by Hassan et al. (2022) and Ismail et al. (2015).

Capacity Building and Regulatory-Legal Enablers

Addressing the critical shortage of skilled waqf professionals requires institutionalizing certified competency programs co-developed by Bank Negara Malaysia, the Securities Commission, and academia. These should include: (a) Waqf Manager Certification (WMC) covering Islamic finance, impact investing, and HCD metrics, and (b) technical training in waqf-based social enterprise development for B40 communities (Fa-Yusuf et al., 2021; Laallam et al., 2020). Legally, Parliament must enact a Waqf for Human Capital Development Act to resolve jurisdictional conflicts between state religious authorities and federal agencies. The Act should mandate SIRCs to allocate 30% of waqf revenues to HCD initiatives and create tax incentives for corporate waqf contributions targeting priority sectors (e.g., AI training for *asnaf* youth) – a framework successfully implemented in Pakistan's Punjab Education Endowment Fund (Usman & Ab Rahman, 2023). Complementary nationwide awareness campaigns leveraging mosque networks and digital platforms could increase public engagement by 30% within five years (Yafi, 2024), embedding waqf within Malaysia's broader madani society vision through community-led HCD projects.

Conclusion

Human capital is a cornerstone for growth and progress in the financial sector. Investing in human capital is vital to enhancing the quality of financial services, as knowledge, skills, and competencies become key strategic factors. These capabilities drive productivity, boost competitiveness, and promote sectoral expansion, thereby playing a significant role in the financial industry's overall development. This study concludes that Malaysia has a significant number of initiatives to develop human capital through waqf land, cash waqf, and family waqf. In addition to that, the government of Malaysia and State Islamic Religious Councils (SIRC) are playing a crucial role in realising the objectives of waqf in developing the socioeconomic status of the community. The study finds that several waqf projects, such as WANCorp, "Terengganu Culinary Academy", "USIM's Specialist Medical Clinic (USMC)" and many other initiatives, have a significant impact on the community. Such initiatives assist many people to alleviate their poverty level and improve their quality of life, leaving the status of *asnāf* and poor in the community. It is noteworthy that the waqf fund enables many entrepreneurs to fulfil their dreams of owning a business. Many *asnāf* and other people receive skills and training from the waqf projects and strengthen their knowledge and experience to be entrepreneurs. Besides all these initiatives and successes, the waqf-based HCD encounters various issues and challenges that require attention from policymakers, waqifs, stakeholders, researchers and also Sharī'ah scholars to find solutions and alternatives. Among the main challenges that hinder the progress are the lack of proper management of waqf, the absence of competent professionals, and also the lack of a suitable model and structure of waqf management for the HCD. Future research might include the practice of the waqf for HCD from other jurisdictions and compare it with the local one.

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