THE CHALLENGES OF MANAGING, INVESTING AND FINANCING WAQF ASSETS IN YEMEN: THE NEED FOR ALTERNATIVE MODEL

BY

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A thesis submitted in fulfillment of the requirement for the degree of Doctor of Philosophy in Islamic Banking and Finance

IIUM Institute of Islamic Banking and Finance
International Islamic University Malaysia

SEPTEMBER 2019


**ABSTRACT**

*Waqf* has played a significant role throughout Islamic history. This has been possible through proper management, investment and financing of various *Waqf* assets to enhance the socioeconomic development of Muslim societies. In particular, it has contributed significantly to the encouragement of religious practices, improvement of education, health and helping the poor and the needy, creating employment and supporting other socio-economic activities. However, nowadays most of *Waqf* assets have become idle and no longer serves the needs of the Ummah due to problems, such as poor governance structure and human resource. Few studies have tried to address challenges facing *Waqf* but unfortunately these studies have been conducted in countries where the governance structure is robust and the quality of human resource is very good. Such models may not be suitable in contexts such as Yemen where *Waqf* assets are mostly in the form of physical assets such as lands and buildings and the quality of human resource and governance structure are poor. Therefore, the current study has proposed a model to address these challenges in terms of management, investment and finance in Yemen. The study has used semi-structured interviews with experts to explore the acceptability of the model in Yemen. The experts interviewed are mainly policy makers, *Waqf* directors and academicians specialized in the areas of *Waqf* and Islamic banking. The findings of the study indicate that Islamic banking model could play a significant role for development of *Waqf* assets. Further, according to the findings of the current study, the applicability of the proposed model to the Yemeni context is supported.
خلاصة البحث

لعب الوقف دورا هاما عبر مراحل التاريخ الإسلامي، وذلك من خلال الإدارة السليمة – في الجملة - لمختلف الأصول الوقفية وتمويلها واستثمارها؛ لتعزيز التنمية الاقتصادية والاجتماعية للمجتمعات الإسلامية. وبالخصوص فقد ساهم الوقف بشكل أساسي في تشجيع الممارسات التعددية، ومساعدة الفقراء والمحتاجين، وتطوير التعليم والصحة، وخلق فرص عمل، ودعم مختلف الأنشطة الاقتصادية والاجتماعية الأخرى. إلا أن كثيرًا من الأصول الوقفية صارت غير فاعلة حاليا، ولم تعد تخدم احتياجات المجتمعات المسلمة؛ وذلك لعدة أسباب منها: ضعف الإدارة والموارد البشرية. وقد حاولت بعض الدراسات المعاصرة اقتراح حلول لمواجهة التحديات التي تواجه الوقف، لكن لسوء الحظ كانت معظم تلك الدراسات قد تم إجراؤها في بلدان كان هيكل الحوكمة ونوعية الموارد البشرية فيها قويًا، وبالتالي فقد لا تكون تلك النماذج مناسبة في بلدان وسياقات أخرى مثل: اليمن التي يكون فيها أصول الوقف في الغالب على شكل أصول عينية مثل: الأراضي والمباني، كما أن هيكل الحوكمة ونوعية الموارد البشرية فيها ضعيف. لذلك اقترحت الدراسة الحالية تموزًا تراه ملائما لمواجهة التحديات الوقفية التي تواجه الوقف في اليمن، حيث إن الهدف الرئيسي من هذا النموذج المقترح هو تخطي التحديات التي تواجه الوقف في اليمن ومنها: تحديات الإدارة والتمويل والاستثمار. وقد استخدمت هذه الدراسة المقابلات شبه المقننة(المقدمة) كأداة لجمع البيانات مع خبراء في هذا المجال؛ لدراسة مدى قبول هذا النموذج المقترح في اليمن. وقد حرصت الدراسة على تجميع خلفيات الخبراء الذين شاركوا وتمت مقابلتهم مثل: مدير الوقف وصناع القرار، وأكاديميين متخصصين في الوقف والصرافة الإسلامية. وتشير نتائج الدراسة إلى إمكانية تطبيق النموذج المقترح في اليمن.
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I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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This thesis is dedicated to my beloved parents, wife, son, daughter, brothers and friends
ACKNOWLEDGEMENT

All glory is due to Allah, the Almighty, whose grace and mercies have been with me throughout the duration of my programme. Although, it has been tasking, His Mercies and Blessings on me ease the herculean task of completing this thesis.

I am most indebted to by supervisor, Assoc. Prof. Dr Mustafa Omar Mohammed, whose enduring disposition, kindness, promptitude, thoroughness and friendship have facilitated the successful completion of my work. I put on record and appreciate his detailed comments, useful suggestions and inspiring queries which have considerably improved this thesis. His brilliant grasp of the aim and content of this work led to his insightful comments, suggestions and queries which helped me a great deal. Despite his commitments, he took time to listen and attend to me whenever requested. The moral support he extended to me is in no doubt a boost that helped in building and writing the draft of this research work.

Special thanks to my father and mother for their unconditional love and constant prayers. I would like to thank my beloved brother Tahir, who has supported me, my brothers, sisters and the entire family.

My sincere gratitude also goes to my beloved wife and lovely children, Abdulaziz and Malak. My wife did not only provide the amazing companionship, love, encouragement and patience throughout this project, but also critical help at the right time without any reservations. Dearest, thank you for everything.

I am also grateful to the following friends for their contributions; Dr. Nabil Al-fahim, Galal Almohammedi, Mohammed Zaid and my special thanks go to my close friend Dr. Ibrahim Al-Jubari, who has contributed immensely in this research. Thank you all for your help.

Lastly, I would like to extend my thanks to all IiBF lecturers, staff, and students for their assistance. They were always eager to see me successfully complete my PhD degree.

Once again, we glorify Allah for His endless mercy on us one of which is enabling us to successfully round off the efforts of writing this thesis. Alhamdulillah
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<th>Description</th>
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<tr>
<td>PBUH</td>
<td>Pace Be Upon Him</td>
</tr>
<tr>
<td>KAPF</td>
<td>Kuwait Awqaf Public Foundation</td>
</tr>
<tr>
<td>BMT</td>
<td>Baitul Mal wat Tamwil</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>MUIS</td>
<td>Majlis Ulama Islam Singapore</td>
</tr>
<tr>
<td>JAWHAR</td>
<td>Jabatan Wakaf, Zakat dan Haji</td>
</tr>
<tr>
<td>APIF</td>
<td>Awqaf Properties Investment Fund</td>
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<td>WIPY</td>
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<td>WSS</td>
<td>Waqf Shares Scheme</td>
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<tr>
<td>DCWS</td>
<td>Deposit Cash Waqf Scheme</td>
</tr>
<tr>
<td>BMA</td>
<td>the Bahrain Monetary Agency</td>
</tr>
<tr>
<td>BIBF</td>
<td>Bahrain Institute of Banking &amp; Finance</td>
</tr>
<tr>
<td>CCWS</td>
<td>Compulsory Cash Waqf Scheme</td>
</tr>
<tr>
<td>CWS</td>
<td>Corporate Waqf Scheme</td>
</tr>
<tr>
<td>CPF</td>
<td>Central Provident Fund</td>
</tr>
<tr>
<td>DWPS</td>
<td>Deposit Waqf product Scheme</td>
</tr>
<tr>
<td>IBBL</td>
<td>Islamic Bank Bangladesh Limited</td>
</tr>
<tr>
<td>SIBL</td>
<td>Social Investment Bank Limited</td>
</tr>
<tr>
<td>BMMB</td>
<td>Bank Muamalat Malaysia Berhad</td>
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<td>CWS</td>
<td>Co-operate Waqf Scheme</td>
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<tr>
<td>MIFWAM</td>
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<td>JPB</td>
<td>Jawatankuasa Pengurusan Bersama</td>
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<tr>
<td>IIUM</td>
<td>International Islamic University Malaysia</td>
</tr>
<tr>
<td>ISRA</td>
<td>International Shari’ah Research Academ</td>
</tr>
<tr>
<td>INCEIF</td>
<td>International Centre for Education in Islamic Finance</td>
</tr>
<tr>
<td>USIM</td>
<td>University Science Islam Malaysia</td>
</tr>
<tr>
<td>ICWR</td>
<td>International Centre for Waqf Research</td>
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<td>IIIW</td>
<td>International Institute of Islamic Waqf</td>
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</tbody>
</table>
CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND OF STUDY

*Waqf* – an endowment of physical or financial asset with earning potential – has played a significant role throughout Islamic history Çizakça, (2000). The core strength of *Waqf* was in its effective management, investment and financing of *Waqf* associated assets that generated earnings for the purposes of socioeconomic development of Muslim societies.

The first *Waqf* in Islam was the mosque in al-Madinah. The land for the mosque was financed by money provided by the Prophet pace be upon him (PBUH). This *Waqf* also marked the beginning of rapid increase in the number of *Waqf* assets right from the time of the Prophet (PBUH). For example, a Jewish man called Mukhairiq made a will that after his death, his seven orchards in Madinah be managed by the Prophet (PBUH) for the welfare of the Muslims. In the fourth year of the Hijrah, the man died and the Prophet took hold of the orchards and made them a charitable *Waqf* (*Kahf*). In another instance, Umar ibn al-Khattab, on the advice of the Prophet (PBUH), donated piece of his land in Khaybar as charity to be managed for the welfare of the poor, wayfarers, slaves and guests. Furthermore, Othman Bin Affan financed the well of Bi’r Ruma for drinking water. Othman reported that upon their arrival in Madinah and realising that the city had no source of drinking water except the water of Bi’r Ruma, the Prophet (PBUH), asked: “Who will purchase Bi’r Ruma to equally share the water drawn therefrom with his fellow Muslims and shall be rewarded with a better well in the Paradise?” Then, Othman said, “I bought it with my own money” [al-Tirmizhi].
The expansion of Islamic state during the era of the Khulafa Al-Rashidin [the rightly guided Caliphs] opened opportunities for affluence and new sources for several *Waqf* assets. This period and the subsequent generations experienced a dramatic expansion in the financing, investment and management of *Waqf* assets by Muslim individuals, communities and states through and through.

*Waqf* institutions became more prominent during the Ottoman state rule. The Ottoman financed, invested and managed huge *Waqf* resources to the extent that there was the famous saying, “Thanks to the *Waqfs* that flourished during the Ottoman caliphate, a person would have been born in a *Waqf* house, slept in a *Waqf* cradle, eaten and drunk from *Waqf* properties, read *Waqf* books, taught in a *Waqf* school, received his salary from a *Waqf* administration, and when he died, placed in a *Waqf* coffin and buried in a *Waqf* cemetery” (Baskan, 2002). Furthermore, it is reported that one-third of the total land governed by the Ottoman constituted *Waqf* land (Sait & Lim, 2005). The financing, investment and management of *Waqf* assets during this period covered various sectors such as education, health, infrastructure and shelter, among others. The mode of investments included Al–Ijaratain (Lease with Dual Payment), Al-Hukr (Long Lease with Large Advance Lump Sum) and Al-Mursad (Loan).

The colonisation of the Muslim countries which was unprecedented in Muslim history, significantly affected the civilisation, cultural, economic, and political spheres of the colonised countries (Çizakça, 2000). The colonial powers introduced new policies in several parts of the Muslim world that greatly undermined the progress of *Waqf* management, financing and investments (R. Karim, 2013). During the colonisation period, most of *Waqf* assets were managed through centralized administration without having any proper governance structure and human resources (Siraj, 2012). The best *Waqf* lands and lot of real estate assets were sold by the colonial administration.
For instance, 10,000 hectares of Waqf lands and inheritance buildings were occupied by the colonial management in Morocco, Algeria, Lebanon, Syria and Tunisia (R. Karim, 2013). Meanwhile, most of Waqf assets were not invested and financed efficiently and productively, where the Waqf funds had used to suppress people who fought against their occupation. Consequently, in most of the Islamic countries, Waqf assets were in a dilapidated state with no proper management, investment and financing.

In recent years, there are attempts in several Muslim countries to revive Waqf institutions in terms of their efficient management, financing and investments. With regard to management in some countries, new governance structures in the form of Ministries and religious councils are proposed, for example in Saudi Arabia, Yemen, and Kuwait, to enhance the management of Waqf assets (Nor & Mohammed, 2009; Siraj, 2012). In other countries, Waqf is being managed by local communities and state councils. For example, in South East Asian countries like Indonesia and Malaysia Waqf assets are under the management of religious affairs councils (Obaidullah, 2013; A. H. Ramli & Sulaiman, 2006).

On the other hand, traditional mode of financing such as long lease is still used to develop Waqf assets for example in Jordan, Morocco and Yemen (Alyan, 2013). Meanwhile, the financing of Waqf assets is slowly shifting from the traditional modes to modern once. cash and corporate Waqf have become the most proper modes of financing the Waqf assets for instance in Malaysia, Singapore, among other Muslim countries (Mustafa & Ogunbado, 2015). According to Aminah and Tahir Sabit (2011), they opine that cash Waqf is the best source that can be used for both the development of Waqf assets and social activities such as helping the needy and the poor. Whereas in Sudan Waqf is financing by Waqf-shares. According to Zulkifli and Mohammed (2008), they stated that using Waqf share scheme is easy method to raise fund.
Further, *Waqf* Funds are largely utilised as a suitable mode for financing *Waqf* assets in some Muslim countries including Kuwait. The following table shows *Waqf* assets allocated for each fund in Kuwait.

### Table 1.1 Summary of Waqf Funds operating in Kuwait.

<table>
<thead>
<tr>
<th>No.</th>
<th>Waqf Fund</th>
<th>Cost (KWD Million) / Kuwaiti Dinar</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Thought and culture Fund</td>
<td>1 Million</td>
</tr>
<tr>
<td>2</td>
<td>Family Care Fund</td>
<td>1 Million</td>
</tr>
<tr>
<td>3</td>
<td>Environmental conservation Fund</td>
<td>1 Million</td>
</tr>
<tr>
<td>4</td>
<td>Health Development Fund</td>
<td>5 Million</td>
</tr>
<tr>
<td>5</td>
<td>Quran and its Sciences Fund</td>
<td>2 Million</td>
</tr>
<tr>
<td>6</td>
<td>Cultural Development Fund</td>
<td>5 Million</td>
</tr>
<tr>
<td>7</td>
<td>Mosques Maintenance Fund</td>
<td>10 Million</td>
</tr>
<tr>
<td>8</td>
<td>Disabled Care Fund</td>
<td>5 Million</td>
</tr>
<tr>
<td>9</td>
<td>Fund for spread the practice of Islam</td>
<td>2 Million</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>32 KWD Million</strong></td>
</tr>
</tbody>
</table>

Source: Kuwait Awqaf Public Foundation (KAPF)

With regard to investment, *Waqf* assets were invested by using several Islamic contracts such as Ijarah (Lease), Musharakah (Equity Partnership), Murabahah (Cost-Plus Sale Contract), Mudarabah (Silent Partnership) and Istisna (Partnership in Manufacturing) that can generate high profits for social and economic development. In Indonesia, *Waqf* assets are invested in the banking institution, Baitul Mal wat Tamwil (BMT), and Small and Medium Enterprises (SMEs) based on Musharakah and Mudarabah contracts (Candra & Ab Rahman, 2010). In Malaysia and Singapore, *Waqf* is being invested through debt-based instrument, equity-based instruments, self-finance instrument and Islamic securities instruments to fund projects (Z. Hasan & Abdullah, 2008a). Despite these attempts by modern Muslim states, *Waqf* institutions continue to face numerous challenges. For instance, legal challenges (M. F. Karim, 2010; Mahamood, 2006), management (Abdul Karim, 2007; Dafterdar & Bank, 2009), and
These studies mainly focus on management, investment and financing challenges. In Malaysia for example, most of the State Islamic Religious Councils basically face Waqf management problems, lack of liquidity to finance the development of the existing Waqf properties and inadequate Shari’ah compliant investment avenues for generating income from Waqf assets (Ismail, Salim, & Hanafiah, 2015). In most cases, the operating costs for the maintenance, repair, etc of Waqf assets exceed Waqf revenue (Ismail et al., 2015). In Bangladesh, Waqf management has turned into a corrupts den. Waqf assets were leased at very low cost to the vested people in connection with the appointed personnel of the Waqf administration. These assets are also manipulated for non-charitable purposes, which ultimately lead to the failure to achieve the aims of Waqf (A. A. M. Ibrahim & Khan). According to Abubakar (n.d), Waqf institution has no proper management in Nigeria. This is because of many challenges militating against Waqf institutions including poor governance structure and inefficiency in Waqf investment (Abubakar). Meanwhile, in Indonesia, most of Waqf assets have not been productively, where the Mutawallis have no ability to use and manage the Waqf land properly. They use only Waqf land for the religious purposes such as build mosques, cemeteries, etc. (Djunaedi, 2013).

1.1.1 An Overview of Waqf in Yemen

Historically, as an extension of the Muslim Caliphate, Waqf contributed significantly in Yemen from the advent of Islam until ten decades ago. For example, the big mosque in Sanaa was the first Waqf in Yemen that was built by Farwa, the companion of the Prophet (PBUH). Another companion, Muadh bin Jabal, built the Junaid Mosque when the Prophet (PBUH) sent him to Yemen to teach people Islam. The subsequent period that marked the Rasulillah state witnessed the peak of Waqf expansion.
In fact, it is considered the golden period of *Waqf* development in Yemen. For example, *Waqf* was used to finance education in the form school buildings and other educational facilities. These schools provided free education to people from elementary until the university level. There were about 115 schools built during Al-Rasulillah state in Yemen, fully financed by the *Waqf* institutions. These schools contributed to Islamic knowledge as well as other sciences. It provided free education for international students (Al-Akwa, 1986). *Waqf* activities in Yemen continued to spread during the rule of the Ottoman caliphate, where several mosques and schools had been established. For example, Ash'aris mosque in Zabeed and Mustafa Basha' school as well as Al-Alexandria school in Sana'a, among others (Al-Akwa, 1986).

Today in Yemen *Waqf* is still a significant institution with huge potentials in terms of the existing asset size and the country’s resources which can be used as new sources for *Waqf*. According to Abdul Rahman Al-Qulam, Deputy of awqaf ministry and Saleh Ali Khamis, General Manager of awqaf in the city of Sana'a; (2008), they asserted that around 240,000 Square kilometres. This constitutes 48 percent, almost a half of the entire land area of Yemen. Additionally, a huge size of moveable and immoveable assets owned by *Waqf* institutions in Yemen (Awqaf, 1991b). In fact, people hardly can find land which is not owned under the *Waqf* assets. Many *Waqf* farming lands that are widely spread in Yemen today are the results of past efforts in financing the sector. Most of these farming lands produce large amount of fruits, grains and vegetables (mujahid, 1978).

Recently, there have been discernible efforts from the Ministry of Awqaf in Yemen towards developing *Waqf* assets. For example, the Ministry established many commercial centres and rented them to people to gain profits and promote investment. There are more than 4000 shops in the city of Sana’a alone (Al Shehari, 1993).
Despite Waqf potential and its contribution towards the socio economic development in Yemen, the institution continues to face numerous challenges, mainly three: management, investment and financing. The management challenge is further classified into two major ones: the absence of good governance structure and poor quality of human resource. In practice, Waqf Institutions in Yemen have poor governance structure. They lack transparency and accountability. For example, a Waqf land manager in Sana’a reports that around 80% of Waqf lands in the city of Sana’a have already been sold by corrupt political leaders (Awqaf, 1991b). The absence of effective institution with clear vision of managing Waqf assets has led to failure in the existing system and the inability to overcome corruption. The governance problem is further aggravated by the poor quality of human resource. There is lack of professional and technical expertise for developing Waqf assets where the majority of workers in Waqf institutions are not qualified. Therefore, there is a dire need for qualified people with sufficient skills to develop strategies and enhance the administrative and organisational effectiveness (Abdulaziz Alwan Said Abdo, 1997).

With regard to investment, Yemeni Waqf assets are not given adequate attention and most Waqf lands are still undeveloped and unproductive (Al-Farran, 2013). All of Waqf assets in Yemen at the moment are physical assets, where much of these physical assets are in the form of lands or buildings. Meanwhile, more that 90 percent of these assets are endowed for religious purposes. Only 10 percent of these assets are used for non-religious purposes. With the present governance structure in Yemen, not much can be done to develop these assets. Therefore, there has to be an external source of financing for these Waqf assets.
Financial challenges are perhaps the most pressing, where there is no sufficient resource to finance \textit{Waqf} assets in Yemen. This is because the revenue generated from the \textit{Waqf} land fully used to cover a wide range of expenses including the maintenance and administration of \textit{Waqf} assets, which often exceed the \textit{Waqf} returns (Awqaf, 1991b). Besides, most of \textit{Waqf} assets in Yemen are mainly into the form of immovable assets including lands and buildings, among others. Which is considered as less productive compared with moveable \textit{Waqf} such as cash (Abdulaziz Alwan Said Abdo, 1997). Other factors which contribute to financial challenges are \textit{Waqf} institution's failure to lease out the land at a competitive rate and the failure to systematically collect rent arrears from the tenants (Al-Farran, 2013). Apparently, in order to address above challenges, there is an urgent need for an effective institution to manage, invest and finance \textit{Waqf} assets efficiently and productively. This institution should have sufficient experiences that can be used to increase the returns on \textit{Waqf} assets to fund \textit{Waqf} projects. Therefore, can Islamic banking be a better choice from the existing institutions in Yemen?

Several studies have shown that Islamic banking has sound management, ability to finance big projects and invest efficiently. For example, the study by M. Iqbal, Ahmad, & Khan (1998) reported that Islamic banking has achieved significant success in mobilising large funds. In addition, two other studies also testify that Islamic banks are highly successful in deposit mobilisation (Nienhaus, 1988; Wilson, 1990). Therefore, it shows that Islamic banking has ability to manage funds as well as it is more efficient to deal with risk management. Besides, Islamic banking has sufficient liquidity to provide finance for a considerable projects (Zaher & Kabir Hassan, 2001). M. M. Hasan & Dridi (2010) assert that Islamic banking fared better in terms of liquidity reserves and profitability.
This illustrates how important Islamic banking growth is in terms of total financing. Given these advantages, there are sufficient evidences that IB could be one good alternative to finance Waqf assets in Yemen.

1.1.2 The role of Islamic banking in the management, investment and financing of Waqf assets

A few studies have examined the role of Islamic banking towards management, investment and financing of Waqf assets. Some of these studies have proposed theoretical models, while others have discussed some models that are already in practice. For example, the study by Ramli & Jalil, (2013a) discussed the banking model of corporate Waqf that is being practiced in Malaysia. The study finds that Bank Muamalat Malaysia Berhad (BMMB) is the first Malaysian Islamic banking institution that has mobilised and managed Waqf fund for investment with the State Religious Council. BMMB has been able to mobilise funds with the consent of its depositors. The minimum contribution is RM10 by individuals and RM100 by institutions. The Waqf fund aims to accumulate RM50 million within three years and Bank Muamalat itself has donated RM1 million into the fund as well as its staff has contributed RM74,040 at the launching ceremony of Waqf Muamalat Selangor (A. M. Ramli & Jalil, 2013a). These funds are then invested through the State Religious Council to finance Waqf projects. On the other hand, there are studies that have proposed theoretical models. For example, the study by Chowdhury, bin Ghazali & Ibrahim (2011) proposed theoretical model in which Islamic banks serve as a trustee. Banks would be responsible for collection, investment and distribution of profit for charitable activities. The bank will act to monitor all Waqf activities, but actual investment, financing and surplus distribution will be managed separately.
Most of these models being practiced or proposed for the countries where the capital market is highly developed and the human resource quality is very high due to high literacy rate. The governance structure in these countries is also well developed and these models are based on cash Waqf which is a moveable asset. In contrast, the case in Yemen is a little bit different. There is the absence of capital market, the human resource quality and the governance structure are very poor. Moreover, most of the assets are in the form of real estate such as lands or buildings. Therefore, there is a need to investigate the possibility of Islamic banking role in managing, investing and financing Waqf assets such a unique Waqf environment in Yemen.

1.2 STATEMENT OF THE PROBLEM

Historically, Waqf played a key role in the development of Muslim societies. Waqf served the Muslim society in almost all fields, such as education, religion, medicine and other socioeconomic aspects. However, currently Waqf has become dormant in most of Muslim countries. Waqf no longer serves the needs of the Muslim communities due to challenges in management, investment and finance. The status of Waqf has deteriorated to such an extent that in some countries Waqf assets have been neglected and undeveloped. In Yemen, nowadays Waqf face numerous challenges especially in management, investment and finance. Management challenges are mainly due to poor governance structure and absence of viable institution. While, Investment challenge is because of the absence of well-developed capital market from which Waqf could generate sufficient revenue for supporting many Waqf projects. Additionally, the absence of liquidity has become a key challenge for financing Waqf assets in Yemen. Therefore, to rejuvenate the Waqf assets in Yemen, there is an urgent need for