



**ISLAMIC SOCIAL FINANCE AND COMMUNITY-BASED TOURISM: A
ZAKAT-WAQF MODEL FOR RURAL TOURISM DEVELOPMENT IN
TERENGGANU**

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Abstract

Rural tourism in Terengganu represents one of Malaysia's most culturally significant and ecologically rich tourism corridors, yet the communities that inhabit its landscapes remain structurally marginalised from the economic benefits of tourism development. Conventional financing mechanisms, reliant on private capital and government grants, have proven insufficient to bridge the gap between tourism potential and community economic participation. This article proposes an integrated Zakat-Waqf model for financing and governing community-based tourism (CBT) development in rural Terengganu, drawing on the complementary functions of zakat as a short-term redistributive instrument and waqf as a long-term asset endowment. Through a systematic review of the literature, institutional analysis, and comparative case examination, the article critically evaluates the theoretical coherence and practical viability of integrating Islamic social finance instruments into CBT planning frameworks. The analysis demonstrates that while the Zakat-Waqf model offers genuine potential for financing eco-tourism infrastructure, cultural heritage tourism, and homestay programme development, its implementation confronts substantive obstacles rooted in jurisdictional fragmentation between the Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM) and state tourism authorities, the governance limitations of current zakat distribution systems, and the cultural dependencies of local communities on government patronage. This article argues that the transformative potential of Islamic social finance in rural tourism development can only be realised through a restructured governance architecture that integrates religious financial institutions into the formal tourism planning system.

Keywords: community-based tourism, Islamic social finance, zakat, waqf, rural tourism, Terengganu, eco-tourism.

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INTRODUCTION

Terengganu occupies a distinctive position in Malaysia's tourism geography. Its coastline encompasses some of the most biologically diverse marine environments in the South China Sea, its interior forests shelter Lake Kenyir, one of Southeast Asia's largest man-made lakes, and its villages preserve traditions of batik craftsmanship, boat-building, and Malay cultural practice that have few equivalents elsewhere in peninsular Malaysia. Tourism Malaysia has consistently promoted Terengganu as a heritage and nature destination, and visitor arrivals to the state grew steadily in the years preceding the COVID-19 pandemic. Yet this tourism richness has not translated proportionally into rural community welfare. The benefits of tourism development in Terengganu have historically been concentrated among urban operators, external investors, and government-linked entities, while the rural communities whose cultural assets and natural environments underpin the tourism product remain net observers rather than net beneficiaries of the industry (Bhuiyan et al., 2016; Wondirad, 2019).

Community-based tourism (CBT) offers a development paradigm specifically designed to address this distributional failure. Defined broadly as tourism that is owned and managed by the community, with the primary purpose of benefiting resident populations rather than external capital (Wondirad, 2019), CBT has attracted sustained policy and scholarly attention in Malaysia since the launch of the Rural Tourism Master Plan in 1995. The government's homestay programme, administered through the Ministry of Rural Development, represents the most institutionally developed expression of CBT in Malaysia and has been operational in Terengganu for more than two decades (Ishak et al., 2025). Nonetheless, scholars and practitioners have consistently identified financial sustainability as the primary constraint on CBT development, with community operators lacking access to startup capital, infrastructure financing, and working capital during off-peak seasons (Kayat and Zainuddin, 2016; Ishak et al., 2025).

It is at this intersection of financial constraint and Islamic institutional capacity that the present article locates its central argument. Terengganu is an overwhelmingly Muslim-majority state with active zakat and waqf institutions under MAIDAM. These institutions collectively manage significant financial resources directed at asnaf (zakat-eligible) households and waqf-endowed land parcels distributed across the state. The argument advanced here is that the current deployment of these resources, largely siloed within religious administrative frameworks disconnected from tourism planning systems, represents a misalignment between institutional capacity and development need. A deliberate integration of zakat and waqf instruments into a CBT financing architecture could address rural tourism's funding gap while simultaneously fulfilling the redistributive and community-building mandates of Islamic social finance.

This article proceeds in six sections following this introduction. Section 2 establishes the theoretical framework grounding the Zakat-Waqf model in the principles of Maqasid al-Shariah. Section 3 reviews the relevant literature on CBT financing, Islamic social finance, and tourism development in Terengganu. Section 4 proposes the integrated model with its financing architecture and governance structures. Section 5 provides a critical analysis of the model's structural constraints. Section 6 offers policy implications, and Section 7 concludes.

Maqasid al-Shariah and the Ethics of Tourism Development

The theoretical foundation of the proposed model rests on the Maqasid al-Shariah framework, which identifies five primary objectives of Islamic law: the preservation of religion (hifz al-din), life (hifz al-nafs), intellect (hifz al-aql), progeny (hifz al-nasl), and property or wealth (hifz al-mal) (Yazid et al., 2025; Chapra, 2008). Applied to tourism development, this framework generates a distinctive normative standard that diverges substantially from the utilitarian and growth-centred criteria that typically guide conventional tourism planning.

The Maqasid framework is relevant to tourism development along three distinct axes. First, the objective of hifz al-mal, the preservation and equitable distribution of wealth, directly challenges the structural tendency of tourism economies to concentrate returns among capital owners while externalising costs onto host communities and ecosystems. An Islamic ethical framework grounded in Maqasid does not merely endorse rural tourism as an income-generating activity; it demands that the distribution of tourism revenues conform to principles of social justice and that the poorest and most marginalised community members, the *asnaf*, are primary beneficiaries rather than incidental participants (Razak, 2020). Second, the objective of hifz al-nafs extends beyond physical survival to encompass dignity, quality of life, and freedom from exploitation. CBT development informed by this objective must therefore ensure that community participants are genuine co-owners and decision-makers in the tourism enterprise, not merely service providers in a value chain controlled by external operators. Third, hifz al-din, the preservation of religious and cultural heritage, provides normative grounding for the conservation of Islamic cultural heritage sites, traditional craft practices, and the intangible religious dimensions of Malay village life that constitute some of Terengganu's most distinctive tourism assets.

Table 1 maps these Maqasid dimensions to specific tourism development imperatives and their correspondence to the United Nations' Sustainable Development Goals most directly relevant to rural tourism in Terengganu.

Table 1: Maqasid al-Shariah Dimensions and Rural Tourism Development Imperatives

Maqasid Dimension	Arabic Term	Tourism Development Imperative	Relevant Target	SDG
Preservation of Life	Hifz al-Nafs	Equitable income distribution; dignified community participation in tourism	SDG 1: No Poverty; SDG 8: Decent Work	
Preservation of Religion	Hifz al-Din	Conservation of Islamic heritage sites; preservation of cultural intangibles	SDG 11.4: Cultural and Natural Heritage	
Preservation of Wealth	Hifz al-Mal	Community ownership of tourism assets; prevention of revenue leakage to external operators	SDG 10: Reduced Inequalities	
Preservation of Intellect	Hifz al-Aql	Entrepreneurship and skills development; environmental education for guides	SDG 4: Quality Education	
Preservation of Progeny	Hifz al-Nasl	Intergenerational transfer of cultural knowledge; sustainable resource management for future generations	SDG 15: Life on Land	

Sources: Yazid et al. (2025); Chapra (2008); Aziz et al. (2024); United Nations SDGs Framework.

This Maqasid-grounded framework carries critical implications for the design of the proposed model. It establishes that the measure of success for a Zakat-Waqf CBT model is not simply the volume of tourist arrivals or aggregate tourism revenue generated, but the extent to which tourism development fulfils these five normative objectives for rural Terengganu communities. This is a more demanding evaluative standard than those typically applied in tourism economics, and it implies that a tourism model achieving high revenues through community dispossession or cultural commodification would be normatively deficient even if commercially successful.

LITERATURE REVIEW

Community-Based Tourism: Potential and Persistent Constraints

Community-based tourism has occupied a prominent position in Malaysian rural development policy since the 1990s, yet the evidence on its distributional outcomes is decidedly mixed. Studies focusing on Terengganu consistently document the state's exceptional natural and cultural tourism assets while simultaneously identifying structural barriers to equitable community participation. Bhuiyan et al. (2016) assessed ecotourism sustainability at Lake Kenyir, a flagship Terengganu destination, and found that while employment opportunities and homestay accommodations generated positive socio-economic impacts, degradation of natural resources and disruption of religious traditions emerged as significant negative externalities of unmanaged tourism growth. This finding points to a fundamental tension in CBT development: the very cultural and natural assets that make rural Terengganu attractive to visitors are simultaneously the most vulnerable to tourism-induced deterioration.

Wondirad (2019) examined CBT stakeholder participation in Pulau Redang, Kuala Terengganu, and found that community inclusion in decision-making processes improved when two conditions were present: the existence of strong CBT organisations and committed leadership. This finding is analytically important because it shifts the analytical emphasis from financing alone to governance structure as a determinant of CBT outcomes. Communities with adequate financing but weak organisational infrastructure consistently underperform relative to their endowment of tourism assets. A model that addresses financing without simultaneously building governance capacity is therefore likely to reproduce the patronage dependencies and elite capture problems that have characterised many earlier rural tourism initiatives.

The sustainability literature on Malaysian homestays reinforces this governance-centred analysis. Saafii et al. (2023), examining homestay sustainability on the East Coast including Terengganu and Kelantan, found that the local community's influence was the most significant determinant of homestay sustainability, while resource management remained the least developed dimension. This suggests that local social capital is a genuine competitive asset in rural Terengganu tourism, but that this asset is currently underinvested relative to its potential. Critically, the study also noted that financial fragility during off-peak seasons constitutes the single most recurrent threat to homestay viability, precisely the gap that a Zakat-Waqf financing model could address.

Zakat and Waqf as Development Instruments

Zakat and waqf are complementary instruments within the Islamic social finance ecosystem, distinguished primarily by their temporal orientation and asset characteristics. Zakat is an obligatory annual levy on qualifying wealth, distributed to eight designated categories of recipients (asnaf) as specified in the Quran. Its redistributive function is immediate and consumption-oriented: zakat resources flow from wealthy households to deserving recipients within a defined time horizon, addressing poverty, debt, and immediate welfare needs (Razak, 2020; Abdulquadri and Quadri, 2025). Waqf, by contrast, is voluntary, permanent, and asset-based. Its defining jurisprudential characteristic is the inalienability of the endowed corpus: the original asset must be preserved in perpetuity, with only its usufruct directed toward charitable purposes (Ishak et al., 2025; Qurrata et al., 2025).

This structural complementarity makes zakat and waqf analytically suited to different phases and dimensions of CBT development. Zakat resources are appropriate for addressing the immediate financial needs of asnaf community members entering the CBT economy, including startup grants for homestay operators, working capital for craft producers, and training subsidies for tourism

guides. Waqf resources, and the longer-term financing instruments they underpin, are more suited to infrastructure investment: the development of eco-lodges, visitor centres, cultural heritage sites, and tourism access infrastructure on waqf-endowed land parcels. Table 2 presents the key characteristics of each instrument and their specific applications in the CBT context.

Table 2: Comparative Characteristics of Zakat and Waqf as CBT Financing Instruments

Characteristic	Zakat	Waqf
Obligation	Obligatory (fard) on nisab holders	Voluntary (sunnah)
Asset Type	Cash (liquid)	Land, property, or cash (waqf tunai)
Temporal Horizon	Annual; short to medium term	Permanent; intergenerational
Corpus Status	Distributed; consumed by beneficiaries	Preserved in perpetuity; only usufruct distributed
Primary Beneficiaries	Eight asnaf categories (Quran-designated)	Specified by waqif; may include community broadly
Administering Body in Terengganu	MAIDAM Zakat Division	MAIDAM Waqf Division
CBT Application	Startup grants; skills training; working capital; asnaf micro-enterprise	Eco-lodge construction; heritage site management; waqf land development
Key Constraint	Limited to asnaf recipients; not recyclable	Inalienability complicates collateralisation; slow MAIDAM capacity
Relevant Financing Mode	Direct grant	Ijarah; Istisna'; Cash Waqf Linked Sukuk

Sources: Razak (2020); Abdulquadri and Quadri (2025); Ishak et al. (2025); Qurrata et al. (2025).

Ishak et al. (2025), writing specifically on the potential of waqf in strengthening CBT in Terengganu, identified three principal strategies available to waqf administrators: developing existing waqf assets directly for CBT purposes, mobilising funding from government ministries and industry players, and pursuing collaborative investments with Islamic banking institutions. Their qualitative research, grounded in interviews with relevant authorities including a District Officer of Setiu and MAIDAM officials, confirmed that waqf land in rural Terengganu is available and potentially suitable for CBT development but that institutional coordination failures between MAIDAM and state tourism authorities have prevented systematic activation of this potential.

Ratnasari et al. (2024), examining waqf models for tourism industry sustainability in Malaysia and Indonesia, found through mixed-methods research that the waqf model can help governments reduce tourism expenditure while sustaining the industry's growth. However, their findings also highlighted that the effectiveness of waqf in tourism is contingent on the quality of governance arrangements linking waqf institutions to tourism operators and community

beneficiaries. An inadequately governed waqf-tourism linkage risks reproducing the patronage and elite capture dynamics that have historically constrained Malaysian CBT outcomes.

FINDINGS

Integrated Zakat-Waqf CBT Development Framework

The proposed Integrated Zakat-Waqf CBT Development Model conceptualises Islamic social finance instruments as structured inputs into a community-governed tourism development system, rather than as separate institutional functions that occasionally intersect with tourism. Figure 1 illustrates the full architecture of the model.

Figure 1: Simplified Integrated Zakat-Waqf Community-Based Tourism Development Model for Rural Terengganu

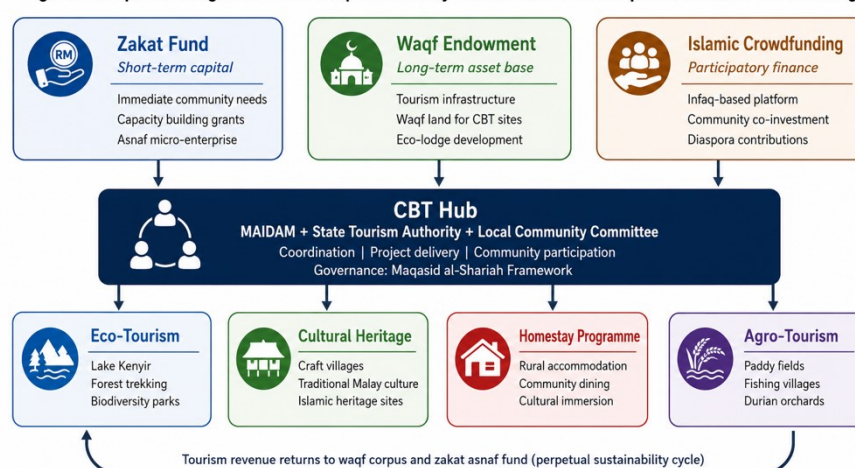


Figure 1: Integrated Zakat-Waqf Community-Based Tourism Development Model for Rural Terengganu.

The model operates through three financing pillars converging on a central CBT Governance Hub. The first pillar, the Zakat Fund, provides short-term, grant-based capital administered by MAIDAM's Zakat Division for immediate community needs including startup costs for asnaf-owned homestay operations, skills training subsidies, and working capital support during off-peak periods. The second pillar, the Waqf Endowment, provides long-term asset financing through the development of waqf-endowed land parcels for eco-tourism infrastructure, including eco-lodges, nature trails, and cultural heritage interpretation centres. The third pillar, Islamic Crowdfunding, mobilises participatory capital through infaq-based digital platforms, enabling diaspora

Terengganu communities, urban Malaysian Muslims, and international Islamic social investors to contribute to rural CBT development.

The CBT Governance Hub, jointly administered by MAIDAM, the State Tourism Authority, and a representative Local Community Committee, coordinates fund allocation, project delivery, and community benefit distribution across four tourism product clusters: eco-tourism centered on Lake Kenyir and Terengganu’s forest environments, cultural heritage tourism drawing on Islamic heritage sites and traditional craft villages, the homestay programme, and agro-tourism anchored in paddy landscapes, fishing villages, and orchard economies. A Maqasid al-Shariah Compliance Board provides normative oversight, ensuring that tourism development across all four clusters conforms to the evaluative standards.

Financing Architecture

Figure 2 presents the detailed financing architecture of the model, illustrating the flow of capital from four funding sources through the governance hub to three categories of tourism output.

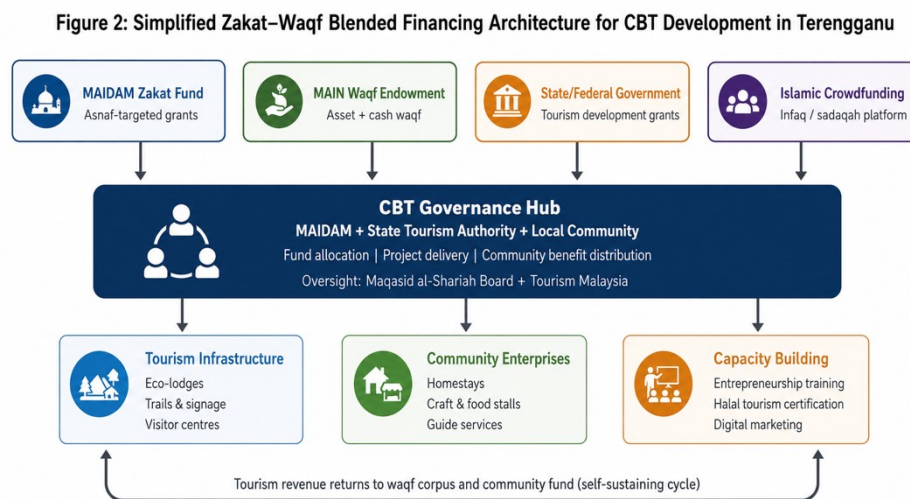


Figure 2: Zakat-Waqf Blended Financing Architecture for CBT Development in Terengganu.

The financing architecture operates as a blended model combining non-repayable zakat grants with waqf ijarah instruments, state matching funds, and crowdfunding contributions. Zakat grants flow directly to community enterprises through MAIDAM’s asnaf assistance programme, categorised as productive

zakat (zakat produktif) rather than consumptive welfare transfers. This distinction is critical: productive zakat directs resources toward income-generating activities that enhance the long-term economic capacity of asnaf households, rather than simply providing subsistence support. Waqf ijarah instruments enable the construction of tourism infrastructure on waqf land, with completed facilities leased to community operators at concessional rates, generating a rental income stream that flows back to MAIDAM for reinvestment. The self-reinforcing character of this cycle, in which tourism revenues strengthen the waqf corpus for further development, is the defining sustainability feature of the model.

Tourism Product Clusters and Terengganu's Asset Base

Table 3 presents an assessment of Terengganu's principal rural tourism assets, the Islamic social finance instrument most appropriate for each, and the development priority level based on current infrastructure gaps and community readiness.

Table 3: Terengganu Rural Tourism Asset Assessment and Zakat-Waqf Instrument Mapping

Tourism Cluster	Key Sites / Assets	Primary Finance Instrument	Development Priority	Community Readiness	Key Gap
Eco-Tourism	Lake Kenyir; Sekayu Waterfall; Tasik Beris	Waqf Ijarah (eco-lodge construction)	High	Medium	Infrastructure; trained guides; access roads
Cultural Heritage	Losong Craft Village; Zainal Abidin Mosque; Traditional Malay Timber Houses	Waqf Endowment (site conservation)	High	High	Conservation funding; interpretation facilities
Homestay Programme	Setiu Wetlands; Terengganu Craft Cultural Complex vicinity	Zakat Productive Grant + Crowdfunding	High	High	Working capital; off-peak financing; digital marketing
Agro-Tourism	Besut paddy landscape; Marang	Zakat Micro-Enterprise Grant	Medium	Medium	Skills training; branding;

Tourism Cluster	Key Sites / Assets	Primary Finance Instrument	Development Priority	Community Readiness	Key Gap
	fishing villages; Dungun durian orchards				market linkages
Marine Island Tourism	/ Pulau Redang; Pulau Perhentian; Pulau Kapas	State Grant + PPP (waqf limited role)	Medium	Low-Medium	Environmental governance; community benefit-sharing

Sources: Bhuiyan et al. (2016); Wondirad (2019); Ishak et al. (2025); Saafii et al. (2023).

DISCUSSION

The Zakat Eligibility Problem

The most immediate technical constraint on the proposed model concerns the eligibility rules governing zakat distribution. Under classical fiqh, zakat may only be distributed to eight designated asnaf categories, of which the most relevant to CBT development are the fuqara (the poor), masakin (the needy), and fi sabilillah (those serving in the way of God, interpreted broadly in contemporary Malaysian practice to include productive development activities). The productive zakat concept, under which zakat funds are deployed as grants or equity contributions for income-generating enterprises rather than as direct welfare transfers, has gained increasing acceptance in Malaysian zakat jurisprudence and is recognised by several SIRC fatwas. MAIDAM itself has deployed productive zakat through micro-enterprise support programmes.

However, the eligible beneficiary pool under any zakat scheme is restricted to asnaf households, and the majority of potential CBT operators in rural Terengganu are not asnaf by current assessment standards. This creates a perverse selection effect in which zakat-based CBT financing reaches the most economically marginalised community members, who may lack the organisational capacity and assets to develop viable tourism enterprises, while excluding the slightly better-resourced households whose participation would be most economically productive for the CBT cluster as a whole. A model that restricts zakat-based tourism financing to strict asnaf eligibility criteria may therefore inadvertently exclude the middle tier of rural households whose entrepreneurial participation is most critical to CBT cluster development. Resolving this tension requires either a broadening of productive zakat eligibility criteria, which has jurisprudential implications that extend beyond the tourism sector, or the development of a parallel non-asnaf financing stream within the model, funded through waqf and crowdfunding instruments.

The Institutional Coordination Problem

The governance framework proposed in this article depends critically on effective coordination between MAIDAM, the State Tourism Authority, and local community committees, three institutional actors whose current mandates and incentive structures do not naturally align. MAIDAM's primary accountability runs upward to the Sultan of Terengganu and downward to the state Muslim community through the administration of Islamic law and religious endowments. Its performance is not measured against tourism development outcomes, and its professional staff are trained in Islamic law and religious administration, not in tourism planning, destination management, or community enterprise development.

This institutional mismatch is not merely a matter of training gaps that can be addressed through capacity-building programmes, though such gaps are real. It reflects a fundamental difference in institutional culture, professional identity, and accountability framework between religious administrative bodies and development agencies. The risk in proposing a coordinated governance hub that brings these actors together is that institutional coordination will be nominal rather than substantive, with each actor continuing to operate according to its own priorities while formally participating in a joint committee structure that produces meeting minutes but not integrated action. This form of institutional theatre is well documented in the Malaysian development governance literature, particularly in relation to rural development programmes that require cross-sectoral coordination.

Critically, the problem is compounded by the political economy of Islamic religious administration in Malaysia. MAIDAM, like all MAIN, derives its authority and resources from the state royal household and state government. Its institutional priorities are shaped by these political relationships, not by community tourism development needs. A proposal to redirect zakat funds toward tourism enterprise development, even under the productive zakat framework, will be scrutinised against competing demands from asnaf welfare, mosque administration, and religious education. In a constrained fiscal environment, tourism development is unlikely to be the highest priority use of zakat resources from the perspective of MAIDAM's principal stakeholders.

The Community Dependency Problem

A third structural constraint, frequently under-theorised in the Malaysian CBT literature, concerns the deep dependency of rural Terengganu communities on government patronage as the primary modality of development support. The Rural Tourism Master Plan, the homestay programme, and successive Malaysia Plans have collectively constructed an institutional environment in which rural community tourism operators expect government facilitation, subsidised training,

and grant-based funding as preconditions for participation. This expectation is rational given the historical pattern of Malaysian rural development policy, but it creates a problematic baseline for a model premised on community ownership, Islamic social finance self-sufficiency, and market-oriented enterprise development.

The community dependency problem manifests in specific ways that the proposed model must address. Rural CBT operators in Terengganu are typically risk-averse, as rational responses to the economic precariousness of rural livelihoods, and may be resistant to the equity participation and revenue-sharing arrangements that waqf-based tourism development would require. Community committees responsible for managing tourism revenues and reinvesting them in waqf corpus maintenance represent a form of institutional responsibility that has few precedents in the village governance structures of rural Terengganu. The Majlis Agama Islam's administrative culture, oriented toward charitable distribution rather than productive investment management, is not well-suited to mentoring community enterprises through the operational complexities of tourism management.

This dependency problem also has a generational dimension. The cultural knowledge assets most central to Terengganu's heritage tourism proposition, batik craftsmanship, traditional boat-building, keris-making, and the intangible performances of traditional Malay arts, are concentrated among older community members whose successors have in many cases migrated to urban employment. A CBT model premised on cultural heritage tourism confronts an accelerating intergenerational knowledge transfer crisis that no financing innovation, however sophisticated, can resolve by itself. Cultural revival requires a broader social commitment to knowledge preservation that sits outside the scope of the proposed model but conditions its viability in fundamental ways.

CONCLUSION

This article has argued that Islamic social finance instruments, specifically zakat and waqf, offer a theoretically coherent and practically significant financing alternative for community-based tourism development in rural Terengganu. The proposed Integrated Zakat-Waqf CBT Development Model, grounded in the normative framework of Maqasid al-Shariah and operationalised through a blended financing architecture involving zakat grants, waqf ijarah instruments, and Islamic crowdfunding, addresses the structural funding gap that has consistently constrained CBT development in the state.

Tourism development that distributes benefits equitably among asnaf communities, preserves Islamic cultural heritage, and ensures intergenerational sustainability of natural and cultural assets fulfils the objectives of Maqasid al-Shariah in ways that conventional tourism financing cannot. Terengganu's waqf

land holdings, MAIDAM's zakat funds, and the state's exceptional tourism endowment represent a combination of resources that, properly integrated, could finance a distinctive and sustainable CBT economy.

However, the model's implementation confronts obstacles that are structural, institutional, and cultural in character. The zakat eligibility problem, the institutional coordination problem, and the community dependency problem collectively represent a set of constraints that cannot be overcome by financing innovation or normative advocacy alone. They require institutional restructuring, legislative reform, and long-term investment in community governance capacity that goes substantially beyond any single planning cycle.

The central contribution of this article lies in articulating the conditions under which the Zakat-Waqf CBT model can succeed. It is not sufficient to establish the theoretical coherence of integrating Islamic social finance with CBT planning or to demonstrate that the asset base exists. Success requires a governance architecture that creates genuine accountability linkages between MAIDAM, state tourism authorities, and local community committees, a productive zakat framework with clear jurisprudential legitimacy, and a patient, long-term development commitment that accepts slow early progress as the price of genuine community ownership. Rural Terengganu's tourism potential is extraordinary. Realising that potential in a manner that fulfils the Maqasid-grounded imperatives of justice, dignity, and sustainability requires institutional innovations that are as ambitious as the normative vision that motivates them.

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Received: 6th April 2026. Accepted: 20th April 2026